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# AUSTRALIA'S INTERESTS AND POLICIES IN THE FAR EAST

*By*  
JACK SHEPHERD

*I. P. R. INQUIRY SERIES*

INTERNATIONAL SECRETARIAT  
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## FOREWORD

This study forms part of the documentation of an Inquiry organized by the Institute of Pacific Relations into the problems arising from the conflict in the Far East.

It has been prepared by Mr. Jack Shepherd, research associate of the International Secretariat, Institute of Pacific Relations.

The study has been submitted in draft to a number of authorities including the following, many of whom made suggestions and criticisms which were of great value in the process of revision: Mr. J. G. Holmes, Mr. C. Hartley Grattan, Mr. J. G. Crawford and Dr. A. Smithies.

Though many of the comments received have been incorporated in the final text, the above authorities do not of course accept responsibility for the study. The statements of fact or of opinion appearing herein do not represent the views of the Institute of Pacific Relations or of the Pacific Council or of any of the National Councils. Such statements are made on the sole responsibility of the author. The Japanese Council has not found it possible to participate in the Inquiry, and assumes, therefore, no responsibility either for its results or for its organization.

In the general conduct of this Inquiry into the problems arising from the conflict in the Far East the Institute has benefited by the counsel of the following Advisers:

Professor H. F. Angus of the University of British Columbia

Dr. J. B. Condliffe of the London School of Economics

M. Etienne Dennery of the Ecole des Sciences Politiques.

These Advisers have co-operated with the Chairman and the Secretary-General in an effort to insure that the publications issued in connection with the Inquiry conform to a proper standard of sound and impartial scholarship. Each manuscript has been submitted to at least two of the Advisers and although they do not necessarily subscribe to the statements or views in this or any of the studies, they consider this study to be a useful contribution to the subject of the Inquiry.

The purpose of this Inquiry is to relate unofficial scholarship to the problems arising from the present situation in the Far East. Its purpose is to provide members of the Institute in all countries and the members of I.P.R. Conferences with impartial and constructive analysis of the situation in the Far East with a view to indicating the major issues which must be considered in any future adjustment of international relations in that area. To this end, the analysis will include an account of the economic and political conditions which produced the situation existing in July 1937, with respect to China, to Japan and to the other foreign Powers concerned; an evaluation of developments during the war period which appear to indicate important trends in the policies and programs of all the Powers in relation to the Far Eastern situation; and, finally, an estimate of the

principal political, economic and social conditions which may be expected in a post-war period, the possible forms of adjustment which might be applied under these conditions, and the effects of such adjustments upon the countries concerned.

The Inquiry does not propose to "document" a specific plan for dealing with the Far Eastern situation. Its aim is to focus available information on the present crisis in forms which will be useful to those who lack either the time or the expert knowledge to study the vast amount of material now appearing or already published in a number of languages. Attention may also be drawn to a series of studies on topics bearing on the Far Eastern situation which is being prepared by the Japanese Council. That series is being undertaken entirely independently of this Inquiry, and for its organization and publication the Japanese Council alone is responsible.

The present study, "Australia's Interests and Policies in the Far East," falls within the framework of the first of the four general groups of studies which it is proposed to make as follows:

I. The political and economic conditions which have contributed to the present course of the policies of Western Powers in the Far East; their territorial and economic interests; the effects on their Far Eastern policies of internal economic and political developments and of developments in their foreign policies vis-a-vis other parts of the world; the probable effects of the present conflict on their positions in the Far East; their changing attitudes and policies with respect to their future relations in that area.

II. The political and economic conditions which have contributed to the present course of Japanese foreign policy and possible important future developments; the extent to which Japan's policy toward China has been influenced by Japan's geographic conditions and material resources, by special features in the political and economic organization of Japan which directly or indirectly affect the formulation of her present foreign policy, by economic and political developments in China, by the external policies of other Powers affecting Japan; the principal political, economic and social factors which may be expected in a post-war Japan; possible and probable adjustments on the part of other nations which could aid in the solution of Japan's fundamental problems.

III. The political and economic conditions which have contributed to the present course of Chinese foreign policy and possible important future developments; Chinese unification and reconstruction, 1931-37, and steps leading toward the policy of united national resistance to Japan; the present degree of political cohesion and economic strength; effects of resistance and current developments on position of foreign interests in China and changes in China's relations with foreign Powers; the principal political, economic and social factors which may be expected in a post-war China; possible and probable adjustments on the part of other nations which could aid in the solution of China's fundamental problems.

IV. Possible methods for the adjustment of specific problems, in the light of information and suggestions presented in the three studies outlined above; analysis of previous attempts at bilateral or multilateral adjustments of political and economic relations in the Pacific and causes of administrative procedures and controls

already tried out and their relative effectiveness; the major issues likely to require international adjustment in a post-war period and the most hopeful methods which might be devised to meet them; necessary adjustments by the Powers concerned; the basic requirements of a practical system of international organization which could promote the security and peaceful development of the countries of the Pacific area.

EDWARD C. CARTER  
*Secretary-General*

*New York,  
November 1, 1939*

*The Institute of Pacific Relations is an unofficial and non-political body, founded in 1925 to facilitate the scientific study of the peoples of the Pacific Area. It is composed of National Councils in eleven countries.*

*The Institute as such and the National Councils of which it is composed are precluded from expressing an opinion on any aspect of national or international affairs; opinions expressed in this study are, therefore, purely individual.*

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## AUTHOR'S PREFACE

The rapid march of events since this study was first undertaken has made the task of bringing it up to date a hopeless one and a note of explanation seems to be necessary as to the time and circumstances under which it was written. The author left Australia at the end of September 1938 and began work on the study a month later in New York. The first draft was completed and duplicated for circulation to commentators in May 1939. Several months elapsed before the comments of those to whom the study had been submitted in various parts of the world were all received and the task of revision in the light of these comments could not be undertaken until early in August. In the meantime there had been a change of government in Australia, important new pronouncements had been made on Australian foreign policy, Anglo-Japanese relations in China had been subjected to very severe strains and the whole European outlook had altered. All this meant that numerous changes of tense and emphasis had to be made during the process of revision and then, when the work was almost done, the conclusion of the Russo-German non-aggression pact raised a whole host of new issues for discussion. It was only found possible to touch very briefly on a few of these issues and the writer was at a distinct disadvantage in trying to interpret Australian reactions to them, and even to earlier developments, located as he was in New York, where current Australian publications are sparse and postal communication with Australia is relatively slow and infrequent. The final draft of the study had been completed when war broke out in Europe and it seemed hopeless to attempt any further modifications or additions in the light of the new situation. The study therefore goes to press in the form which it had assumed at the end of August.

The author's task in treating developments in Australia since September 1938 has been greatly facilitated by the co-operation of his father and various friends in Sydney and Canberra who furnished comments and factual material which would otherwise have been unobtainable. To all of these people he is

greatly indebted. Thanks also are due to the various commentators in the United States, Europe and Australia who were good enough to read the study in draft and suggest many extremely valuable alterations, amendments and additions. Finally the author owes a debt of gratitude to those colleagues on the International Secretariat and the Staff of the American Council of the Institute of Pacific Relations whose comments and suggestions have been tremendously helpful, and to the colleagues and teachers in Australia who helped to equip him with the background knowledge without which the preparation of this study could scarcely have been undertaken.

New York  
September 15, 1939.

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AUSTRALIA'S INTEREST AND POLICIES  
IN THE FAR EAST



## CHAPTER I

### THE HISTORICAL BACKGROUND TO 1930

#### *Early Contacts*

From the time of its first discovery, Australia's nearness to the countries of Eastern Asia has had a profound influence upon its history. Dutch traders to the East Indies first made known to the world the larger part of the Australian coastline, and were surprised and disappointed not to find in "New Holland" the same Asiatic products which were the staples of their rich trade with other parts of the "Indies." De Brosses, the seventeenth-century French geographer, thought of the sixth continent and the adjacent islands as an extension and counterpart of eastern Asia in the Southern Hemisphere and so gave to them the name of "Australasia."<sup>1</sup>

The men who first proposed to the English Government that the eastern coast of Australia should be the site of a new British colony envisaged a settlement which, by reason of its nearness to China and the Indies, might be developed as an important *entrepot* of British trade in the East. The British government was at that time more interested in finding an outlet for the accumulation of convicts who were crowding the English gaols, after the cessation of transportation to America, than in the foundation of a new trading outpost in the East, and so when they took up the scheme its commercial aspects were relegated to the background. In fact, since the whole idea of a settlement in New South Wales was opposed at the outset by the powerful English East India Company, who feared an invasion of their monopoly of trade in Eastern seas, drastic restrictions were imposed from the beginning on the commercial activities of the colonists. A prohibition of all trade between the new colony and the preserves of the East India Company save in the Company's own ships, which was in force from 1788 till 1833,<sup>2</sup> seri-

<sup>1</sup> See J. Shepherd, "Austral-Asia" in the *Australian Geographer*, Vol. III, No. 4, May 1938.

<sup>2</sup> After 1813 the monopoly only applied to the China trade.

ously hampered the colony's economic development, since it happened that the principal market for the three most likely articles of trade available to the settlers was China. Those articles were seal fur, sandalwood and *bêche-de-mer*, and the colonists, compelled to hold their stocks until an East Indiaman happened to call at Sydney to pick them up, found that they could not compete with American traders who could carry the same goods direct to China. Moreover for the first quarter century of its existence the colony was forced to rely for its supplies, and for its contact with the outside world, very largely upon the East India Company's ships, whose sailing times were determined primarily by the incidence of the tea season in China whither they resorted for their homeward cargo after unloading convicts and stores in Sydney. By the time the restrictions upon direct trade to the East were lifted, the island sandalwood reserves had been seriously depleted, the seal herds of Bass Strait and southern New Zealand had been practically destroyed and the trade in *bêche-de-mer* abandoned to the Malays by whom it had been conducted long before the coming of the white man. Colonial enterprise was now directed primarily inland, and colonial commerce, such as it was, firmly oriented toward the mother country. An inward trade in tea from China remained as the only important commercial exchange between Australia and the Far East. This trade continued as an item of relatively minor importance until the Sino-Japanese war of 1894-5 temporarily cut off the supply of tea from China and gave the Indian tea merchants the opportunity they had been seeking to capture the Australian tea market. More important perhaps than the actual exchange of tea was the fact that the tea trade led to the maintenance of frequent sea communication between the Australian colonies and the ports of Eastern Asia. In the 'fifties and 'sixties particularly, fast-sailing clippers, small editions of the famous craft which raced each year from China to Europe, provided a surprisingly swift passage between China and Australia.

Until the middle of the nineteenth century Australia remained linked with Asia in the minds of people in Europe, and indeed in the minds of the Australian settlers themselves. Australia was part of Austral-Asia, the ships which carried colonists to the new land flew the house-flags of the Orient Line and of the Peninsula and Oriental Company, and a journal published

in Tasmania, carrying items of local news, bore the title "Austral-Asiatic Review"—in short Australia was still regarded as part of the Far East. This consciousness of Australia's nearness to eastern Asia was very largely lost during the second half of the nineteenth century. With the discovery of gold and the great inrush of diggers from every corner of the earth after 1852, Australia not only increased its population many fold but began to acquire an identity of its own in the world's eyes. The name "Australasia" survived as a convenient collective term for Australia and New Zealand, but its original significance was very largely forgotten.

### *Chinese Immigration*

The gold discoveries not only created a distinction in the European mind between Australia and the Orient, but also resulted in an important change in the character of the relationship between the two regions. In the wake of the white gold diggers came the Chinese in large numbers, and the friction which arose on the goldfields between European and Oriental miners not only led to legislative attempts to limit the number of Chinese immigrants, but more important still it colored Australian opinion on the question of Asiatic immigration for generations. Even during the 'forties there had been strong opposition in the Australian colonies to the introduction of indentured Cantonese laborers as a substitute on the sheep-runs for convict labor, the supply of which had been cut off with the cessation of transportation. But in the following decade when the number of Chinese immigrants greatly increased, and they established themselves on the goldfields in thousands, feeling against them grew bitter to the point of violence. They constituted a distinct, exotic group in the mining camps, their frugal manner of life contrasted sharply with the more prodigal existence of the European diggers, the tendency they showed to keep to themselves created an aura of mystery around them and in the absence of knowledge and understanding wild stories of immorality and vice among the Chinese found ready acceptance among the Europeans. Hence the ugly race riots which were a recurrent feature of life on the goldfields, not only in the 'fifties in Victoria, but in later years in other states when new gold discoveries led to new "rushes" and fresh influxes of Chinese immigrants. The problem became an important polit-

ical issue because the colonial politicians sought by restrictive immigration legislation to check the growth of what one of them called "a social and economic menace" to the well-being of the colonies, while the British Government, fearful of the international complications which might follow official discrimination in Australia against the nationals of a friendly Power, brought pressure, and even its power of veto, to bear upon the colonial governments.<sup>3</sup> The question of Chinese immigration thus became intertwined with the vexed question of colonial autonomy, and the strong feeling engendered in the struggle for self-government intensified the bitterness already felt against the Chinese. The position was complicated even further by the domestic struggle between working-class groups who feared the competition of Chinese coolie labor and those interests which favored the admission of cheap Chinese labor to the colonies. Race prejudice offers fine fuel for the fires of enthusiasm in any political movement, and Australian political leaders fighting the battle of organized labor found the Chinese immigration issue no less useful a weapon than did those groups which were fighting for colonial autonomy. This linking up of the question of Chinese immigration with broader political issues accounts very largely for the growth of intense popular feeling in favor of the exclusion of all Asiatics, a principle which was crystallized in a resolution accepted by an Inter-Colonial Conference in 1896, and put into effect by legislation of the newly formed Commonwealth in 1901.

#### *Japanese Immigration: Effects of Sino-Japanese War 1894-5*

There is, however, another side to the story of the formation of Australian public opinion and official policy with respect to the Far East which must be told in order to make the whole picture clear. Discussion so far has been confined to the question of Chinese immigration, but some explanation is necessary for the extension of the exclusionist policy to the Japanese.

Little attention was paid to Japan by the people of the Australian colonies prior to the outbreak of the Sino-Japanese war of 1894-5. The one notable instance of earlier interest was a proposal of the South Australian Government in 1877 to introduce Japanese settlers to the area which is now the Northern

<sup>3</sup> For a detailed account of colonial legislation to restrict Asiatic immigration see Myra Willard, *History of the White Australia Policy*, Melbourne, 1922.

Territory, then under South Australian control. This scheme was unique in that it provided for the introduction not merely of laborers, but of Japanese of all classes who were to be given land in fee simple and full citizenship. An agent was actually sent to Tokyo to discuss the project with the Japanese Government who apparently were on the point of assenting to it when a serious insurrection led by Saigo Takamori interrupted negotiations and led eventually to their abandonment. Although the scheme came to nothing, its very existence is evidence that in South Australia at least the feeling against Asiatic immigration did not at that time extend to the Japanese.<sup>4</sup>

The outbreak of war in the East in 1894 brought Japan very much into the public eye in Australia,<sup>5</sup> and wrought a complete change in the Australian attitude toward the Japanese people. Hitherto regarded as a completely harmless and rather curious nation, whose men waved fans and whose women wore kimonos, Japan was rapidly elevated by success in war to the rank of a "menace." Australians have always felt themselves threatened by a menace of some sort. In the early days it was the French, and later on it was, at various times, the Russians, the French again, the Germans, and now in the later 'nineties the Japanese. Curiously enough the Chinese seem never to have been regarded as a menace in the military sense. Immigrants from China were simply believed to constitute a threat to the social harmony and the economic balance of Australia. But the new Japan was regarded in many quarters as a potential danger to Australian security. The war made Australians realize that a new "Power" had arisen in the Pacific. Immigration from Japan constituted a mere trickle, but the idea now occurred to some fearful Australians that Japan, with her new-found military strength, might force a way into Australia for Japanese settlers. Australian military authorities in particular sought to impress upon the various colonial governments that the elevation of Japan to the rank of a first-class Power imparted additional importance to the subject of Australian military and naval

<sup>4</sup> See I. Clunies Ross (ed.), *Australia and the Far East*, pp. 17-21.

<sup>5</sup> Unless otherwise stated, information and quotations from Australian newspapers used in the following account of Australian reactions to the Sino-Japanese war and the Anglo-Japanese commercial treaty are drawn from a series of articles by John Plummer, published mainly in the *Japan Daily Mail* during the years 1895-1900. The articles are collected in a volume of news cuttings in the Mitchell Library, Sydney.

defense. The annual military exercises in 1895 took the form of repelling a fictitious attempt by Japanese war vessels to enter Sydney harbor and much significance was attached by some Australians to the Japanese occupation of Formosa. The press generally was less fearful than the defense experts, and frequently expressed great admiration of "little Japan's" achievement in "doubling up the boastful giant." Some papers criticized those Western Powers which helped to deprive Japan of the fruits of her victory. The Melbourne *Argus* felt that such a course might easily "make a deadly enemy of Japan," and went so far as to suggest that the extension of Japanese power into Manchuria might have provided a desirable barrier to the advance of "the dreaded Muscovite." Most of the papers were awake to the fact that changes in the Far Eastern balance were likely to have a profound effect on Australia's future. At the beginning of 1895 the *Sydney Morning Herald* declared that "everything at the present hour seems to point to the East as passing through a crisis that will leave a memorable mark in history; and it is quite conceivable that this sudden uprising of Japan and its ultimate possession and control of the enormous resources of China may affect the fortunes and the destinies of the whole world." Australia, said the *Evening News* about the same time, "is certain to hear more of the Asiatic power which in so surprising a manner has availed itself of the resources of Western civilization. It is only to be hoped that our future relations with it will always be as friendly as they are tolerably sure to be intimate."

Australian opinion with respect to Japan was influenced in the 'nineties not only by the Sino-Japanese war but possibly even more by the Anglo-Japanese commercial treaty of 1894, and the controversy which followed over the adherence or non-adherence of the Australian colonies to this agreement. The major issue in the domestic politics of the colonies at that time was that of Free Trade versus Protection. This was the basis of alignment for the principal political groups within each of the colonies, and the chief bone of contention between one colony and another. When the commercial treaty with Japan was signed, Great Britain gave her self-governing colonies the option of becoming parties to the treaty or not as they pleased. Free trade groups in all the Australian colonies were in favor of adherence, and emphasized the commercial benefits which

would accrue from the treaty. Protectionists were bitterly opposed to adherence on grounds of general policy, and as a means of rallying public opposition to the treaty they concentrated their criticism on a clause which provided that the nationals of each of the contracting parties should enjoy reciprocal rights to enter, travel and live in the other's territory. In view of the old fear of Chinese immigration, and the new fear of Japan inspired by knowledge of her success in the war, it was not surprising to find politicians using this argument against adherence to the treaty with great success. When the London *Times* advised the Australian colonies not to do anything to imperil Britain's Oriental trade "for the sake of race prejudice," the *Sydney Morning Herald* replied that "With us it is not a mere matter of sentiment or racial prejudice, but the grave question of whether we shall preserve our existence as an Anglo-Saxon people, and prevent the Australian continent from being swarmed over by races that do not assimilate, but might in their multitudes alter or sweep away the institutions we are so carefully building up for ourselves and our children. . . . *Pace* the London 'Times' no commercial benefits that we can conceive would be commensurate with the evils that might come upon Australia from an unrestricted inflow of Asiatics such as would be rendered possible by the treaty as it stands."

The controversy in Australia over the trade treaty has a twofold significance in the history of Australia's relations with her Oriental neighbors. In the first place it provides, along with the earlier controversy over colonial restrictions on Chinese immigration, evidence of a certain divergence of Australian and British interests in matters of policy affecting the Far East. In the second place it offers a further illustration of the way in which Australian opinion on the question of Asiatic immigration was inflamed, and feeling in the colonies intensified, because the problem became involved with other political and economic issues. In the battle for colonial autonomy, in the Australian Labor Party's early fight for existence, and above all in the struggle of the Protectionists against the Freetraders, the dangers of unrestricted Asiatic immigration were emphasized to the point of gross exaggeration to advance the interests of various political groups. Herein perhaps lies the explanation of the establishment of the principle of a White Australia as an article of national faith. The great political

controversies with which the Asiatic immigration question became involved were all raging in the formative years of the Australian Commonwealth and by the time the federation of the colonies was achieved at the turn of the century, public opinion in the new nation was set firmly in favor of a policy of exclusion. The Protectionist group which dominated the first Parliament legislated for exclusion along with protection. The Labor Party, zealous to safeguard the Australian standard of living, soon became a major influence in the political life of the Commonwealth, and the British Government ceased to question the right of the new Dominion to determine its own policy in respect of immigration. And so the "White Australia" policy has continued to operate ever since, never seriously challenged within Australia, and almost unchallengeable from the point of view of practical politics.

#### *Beginnings of Trade with Japan: Conflict of Opinion*

If the last decade of the nineteenth century saw the crystallization of Australian immigration policy, in a form reflecting an essentially hostile attitude toward the admission of Asiatics, it also saw the beginning of Australia's commercial relationships with the countries of the Far East in their modern form. The Sino-Japanese war virtually extinguished the trade in tea from China but it drew the attention of the Australian commercial community to a potential market in Japan which they had hitherto ignored. Back in 1874, a few enterprising woolgrowers had gone so far as to send small sample shipments of wool to Japan hoping to open up a new trade there, at a time when wool prices elsewhere were low, but wool prices rose again and interest in the undeveloped Japanese market was dissipated. So complete was its disappearance that two commissioners sent to Australia by the Japanese Government in 1878 to explore the possibility of obtaining wool for military uniforms were almost completely ignored.<sup>6</sup> The interest which was aroused in the 'nineties, however, was much more widespread and actually led to the inauguration of the Australian wool export trade to Japan on a significant scale. The question of colonial adherence to the Anglo-Japanese Commercial treaty brought the matter very much into the foreground. The free-trade

<sup>6</sup> See Plummer Cuttings and *The New Zealand Country Journal*, Nov. 1878, p. 370.

group, especially the pastoralists, saw in Japan a new and valuable outlet for Australian wool and other products; their protectionist opponents either minimized the potentialities of the Japanese market, or suggested that any commercial advantage accruing from it would be bought at too high a price if adherence to the treaty opened the floodgates to a huge tide of Japanese immigrants which might sully or even extinguish Australia's Anglo-Saxondom.

Anxiety to learn the facts about the Japanese market led the South Australian and Victorian Governments to send commissions of inquiry to survey the field. The Attorney-General of New South Wales took a health trip to Japan late in 1895 and reported with qualified optimism to his Government on new trade prospects in the East. Numbers of private merchants also traveled to Japan at this time to survey the field for themselves and many of them returned full of hope for a substantial export trade to Japan. On the other hand David Syme, powerful owner of the ultra-protectionist Melbourne *Age*, after a personal visit to Japan, returned very skeptical about the advantages of Japanese trade to Australia, and fearful of the effects of Japanese competition on Australian industries.

The *Age* seized gleefully on a British Consular report on the foreign trade of Japan issued late in 1895 in which the significance of Japan's rapid commercial expansion for Australia was discussed in some detail. The report declared that, despite a steady increase after 1891, the volume of Australian-Japanese trade was still very small and nothing "in the present or prospective requirements of Japan warrants the extravagant hope which now seems to be entertained in Australia, as to very speedily finding or creating a profitable and extensive market for her productions here." Jealous of the interest of Australia's infant industries, the *Age*, speaking for the Protectionists, saw only danger in the realization of the British Consular prediction that if any considerable trade did ever develop between Australia and Japan, which was "possible," its main feature must be exports from Japan. While Japan could offer on the Australian market "many productions which are peculiarly her own," she had, at that time "absolutely no requirements that Australia could supply which are not already satisfactorily met by the much nearer United States." The growth of a demand for raw wool, upon which Australian merchants rested their

main hopes, was contingent, said the report, upon the development of a local Japanese woolen industry. This was held to be unlikely since there were too many other fields open to Japanese industrialists "for supplying well-defined wants among their countrymen to leave the least temptation to them to venture on those which must be purely speculative." No largely increased demand for woolen goods was to be expected and such as existed was being met by foreign manufacture.

Despite the British Consul and the Melbourne *Age* the hopes of woolgrowers and others interested in the export of primary produce were undiminished. Through the various colonial Chambers of Commerce they continued to urge adherence to the Anglo-Japanese commercial treaty, and were undeterred by the warnings of their labor and protectionist opponents who continued to stress the "menace" of unrestricted Japanese immigration. The dire results of adherence feared by the opponents of the treaty included not only a great influx of Japanese immigrants but also a great influx of cheap and inferior Japanese goods. Early in 1896 reports of the Kyoto Exhibition reprinted from the *London Times* in the Australian press drew attention to Japan's rapid industrial development, and considerable concern was expressed in the Press at the possibility of serious Japanese competition with Australia in the industrial field. The protectionist papers were particularly alarmed and pointed to the low wage levels prevailing in Japan, and one observer reported that "the fear of Japanese industrial competition pervades all sections of the producing class in Australia."

The matter of trade with Japan, like the question of Asiatic immigration, became involved with the broader issues of Australian party politics, and public opinion on the subject was often inflamed deliberately in the interests of one party or another. Political writers painted a gloomy picture of a time when "Japan will have the London, Birmingham, Manchester and Leeds of the Southern world, and Australia the mines, fields and pastures and the raw materials, and the mean, narrow and serf-like life which naturally appertains thereto." A New South Wales politician declared that in view of Japan's industrial progress "the workmen of Australasia cannot . . . afford to treat the possibility of Japanese competition as remote. When the new treaties are in vogue we will have to resort to protective measures, or our skilled workmen will go down to the Japanese

level in wages. It remains for the workmen of New South Wales to say at the next election which it shall be." The freetraders' reaction to Japanese industrialization was expressed in a reply evoked by this statement, in which the writer welcomed the news of Japan's progress, "because the more prosperous the Japanese people become, the greater quantity of Australian produce they will be able to afford to buy."

The freetraders fought a losing battle on the immediate political issues affecting the relationship between the Australian colonies and Japan. An inter-colonial conference which met early in 1896 advised the Australian governments not to adhere to the Anglo-Japanese commercial treaty, and with this advice went a recommendation in favor of legislation restricting the admission of all Asiatics including the Japanese. Only in Queensland was this advice not taken, that colony adhering by a special protocol to this treaty, and entering into a "Gentlemen's Agreement" with Japan which provided for the regulated admission of Japanese to work in the pearlind industry.

Non-adherence to the commercial treaty led to a slackening of interest in the expansion of commercial relations with Japan after 1896. Another distracting factor was the establishment of direct shipping links with Manchester, Hull, Glasgow and other British ports, from which great possibilities were expected, and the discouraging reports from the British consular officials outweighed the optimism of the various Australian commissioners who had visited the Far East.

Nevertheless the foundations of Australia's future trade relations with Japan had been firmly laid during the early 'nineties, and there were signs of substantial progress throughout the decade, despite the political setbacks suffered by the groups most anxious to promote the new trade. It was during these years that the first Japanese merchants established themselves in the Australian capitals and the first Japanese consuls were appointed to the Australian states. Japanese silks and fancy goods became popular. One observer in 1895 reported that "there are few Australian homes in which vases and other Japanese ornaments are not to be found, and the ever-increasing business in these has largely checked the import of fancy goods from the United Kingdom, France, Germany and elsewhere. Not only this, but it is also having a marked influence on Australian art taste, the number of rooms decorated in Japanese fashion being

considerable." The balance of trade at the beginning was markedly in Japan's favor, but regular shipments of Australian wool to Japan commenced in 1890 and increased steadily in volume as the Japanese woolen industry developed. F. Kanematsu, the pioneer Japanese merchant in Australia, who was himself responsible for the first important wool shipments to Japan, told Sydney pressmen in 1895 that Japan was drawing one-third of her wool imports from the Australian colonies, and predicted a steady increase in the Japanese demand for fine wool. He predicted that just as the produce of Japanese cotton mills had displaced cotton goods from Manchester and Bombay in the domestic market, so Japan eventually would produce her own woolen textiles, drawing her main supply of raw wool from Australia. And since Japanese mills would probably operate more cheaply than those of the old world, the demand for woolen textiles in Japan would increase as they became available at a lower price. Australian hides and leather also made their first appearance on the Japanese market in the 'nineties.

Perhaps the best reflection of the increasing importance and volume of Australian-Japanese trade in the 'nineties was the expansion of shipping facilities between the two countries. Nippon Yusen Kaisha instituted a regular service to Australia in 1896 and in the same year the old-established Eastern and Australian Steamship Company added a new liner to its fleet plying between Australia and the Far East. Competition between the lines had the effect of reducing freights and this, together with the more frequent service provided, gave a further stimulus to trade. The fact that the Japanese service was supported from the beginning by an annual appropriation of ¥600,000 voted by the Diet, is concrete evidence of the importance attached in Japan to the newly established trade with Australia.

The historical development of Australia's relations with China and Japan has been discussed at some length because, to a very great extent, the forces which still determine the character of Australian public opinion and Australian official policy with respect to these countries took shape and began to operate in the nineteenth century, and more especially in the formative years immediately prior to the establishment of the Australian Commonwealth. The "White Australia" policy was evolved substantially in its modern form in the eighteen-nine-

ties, and early legislation of the Commonwealth Parliament perpetuated the immigration policy advocated so vehemently by powerful protectionist and working-class groups in the immediate pre-Federation years. Never since has the doctrine been seriously questioned and it remains an article of the national faith. From the Australian point of view at least the question of Asiatic immigration was faced and disposed of forty years ago, and even those interests which in the nineteenth century opposed exclusive legislation have ceased to question the wisdom of the "White Australia" policy.

While virtual unanimity had been reached by 1900 regarding immigration, no such unanimity had been attained as to the proper policy to be adopted in respect of other relationships with countries of the Far East. Nevertheless, the main trends of public opinion regarding Australia's relations with her Oriental neighbors emerged in the 'nineties very much in the form they have retained ever since. Broadly speaking, Australian opinion since 1894 regarding these countries has followed one or other of two divergent lines. One line is that followed by those who think of Australia and Eastern Asia as regions whose geographical nearness to each other renders a close commercial association inevitable, and a friendly political association desirable between their respective peoples. Heavily populated and deficient in certain raw materials and foodstuffs which Australia can provide, the countries of Eastern Asia have been held to offer a vast potential market for Australian primary produce. Furthermore, the industrialization of any part of Eastern Asia is held to be to Australia's advantage in that it will increase the demand for Australian raw materials, create a larger demand for foodstuffs by raising the standard of living in the region where it takes place, and possibly make available cheap manufactured goods to the Australian consumer. The contrary line of thought has been that followed by those who feel that the nearness of the crowded countries of Eastern Asia constitutes not an advantage but a danger to Australia. Different groups have seen the "menace" in different forms. Some have felt that the danger lies in a possible overflow of population from the crowded Orient into sparsely populated Australia—such an influx would take place peacefully, it is feared, but for exclusive legislation, and if it happened it would mean the end of Australia's racial uniformity, a lowering of her standard of

living, and the creation of all sorts of social problems of the kind which arise from race conflict. For others the danger is a military one; Japan in particular has become a great and ambitious power, anxious to increase her territory and her prestige; what easier victim for her might than a defenseless Australia. There is a third group which has seen the menace as an economic one—for it the danger is that an industrialized eastern Asia might flood the Australian market with cheap manufactured goods destroying Australia's own industries and displacing the products of British industry by ruinous competition. Any one of these three dangers, it has been held, might easily outweigh the commercial advantages to be expected from Australia's nearness to China and Japan.

While there have been, since the 'nineties, people who thought chiefly along one or other of these lines, it is probably true to say that in the minds of many more the various points of view have been intermingled, and that since 1895 most Australians have regarded the Far East with mingled feelings—of hope and fear. During the twentieth century hope and fear have alternated as the dominant influences affecting Australian public opinion and even Australian official policy with respect to the Far East. Of course fear of China as a great power vanished with her defeat in 1895, and there was little concern over the menace of Chinese immigration after the passage of the Immigration Exclusion Act in 1901, but the hope persisted that China's millions might some day become a valuable market for Australian produce. Fear of Japan remained and remains a factor of considerable importance, for the most part latent, but starting up now and then upon occasion. Hopes of a market for Australian produce in Japan have been even higher than those of a market in China, though it was more than thirty years before optimism regarding trade with Japan reached again the level it attained in 1895.

### *Australian Policy Since 1900*

The story of Australia's relations with Japan during the first thirty years of the present century has been told in detail elsewhere<sup>7</sup> and only the highlights need be mentioned here to illustrate the alternation and the intermingling of hope and fear in Australian public opinion and policy.

<sup>7</sup> See especially I. Clunies Ross (ed.), *Australia and the Far East*, Chaps. I and II.

The conclusion of the Anglo-Japanese Alliance in 1902 did much to allay the fear of Japan aroused by her victory in the war of 1894-5. The military menace at least was eliminated so long as a treaty between Japan and the mother country remained in force. A slight adjustment in the Immigration Exclusion Act in 1905 and a Japanese undertaking to limit her emigration so far as Australia was concerned to tourists, merchants and students, seemed to settle the immigration question to the mutual satisfaction of both countries, and the sudden inrush of cheap Japanese goods feared in the 'nineties did not materialize, so that fear on this score was for a time allayed. Australians did not fail to appreciate the significance of the Japanese victories over Russia in 1905 but saw no immediate reason for concern. On the other hand the government of New South Wales was sufficiently hopeful regarding future trade relations with Japan to establish a commercial agent of its own in Tokyo. Enough of the old fear remained, however, to make persistent rumors of espionage by Japanese pearl ing sampans on the north coast credible to the extent that they influenced the decision to adopt a system of compulsory military training in 1909 and to establish a separate Australian navy in 1910.<sup>8</sup>

In the early years of the World War the part played by Japan as Britain's ally in the destruction of German power in the Pacific, and the provision of convoys by the Japanese navy for the protection of Australian troopships was much appreciated in Australia and tended to strengthen friendly feeling toward Japan. But almost immediately this feeling was offset by concern over the Japanese occupation of former German islands in the Pacific.<sup>9</sup> The Australian Government was originally asked by Britain to seize and occupy German outposts north as well as south of the Equator, but this request was hastily countermanded after a Japanese garrison had been established in Yap, and German islands north of the Equator were thereafter left for the Japanese to handle, although it was understood that until the final disposition of these territories could be decided at the end of the war, their occupation was to be of a temporary character. The secrecy surrounding this arrangement for a division of labor between Japan and the British Dominions in handling the former German islands in the Pa-

<sup>8</sup> Australia: *Parliamentary Debates*, Vol. LV, p. 11; Vol. LIX, pp. 681-4.

<sup>9</sup> E. Scott, *Official History of Australia in the War of 1914-18*, Vol. XI, p. 763.

cific, bred wild rumors in Australia regarding Japanese activities in the South Pacific. The Australian Government, however, better informed regarding the arrangements than the Australian public, formally agreed to the arrangement. Although rather dubious about some aspects of it, they could do little else than accept what was virtually a *fait accompli*.<sup>10</sup>

All the Australian doubts and suspicions were revealed, however, at the Peace Conference. For decades Australians had shown themselves sensitive to every change in the status of the islands of the South Pacific, and the entry of Japan as a permanent factor in the politics of this region was contemplated with no less alarm than that of France and Germany in the nineteenth century. In fact the question of the control of the New Hebrides had been a source of grave concern as late as 1907.

#### *Pacific Mandates and the Demand for Racial Equality*

It was useless of course to suggest that Japan evacuate the islands she had occupied north of the Equator. Britain had committed herself in 1917 to support Japan's claims to permanent control of these islands, in consideration of an undertaking by Japan that she would support British claims to the islands south of the Equator.<sup>11</sup> But if Japan was to annex the northern groups, Australia and New Zealand were determined that they should receive those to the south. Japan's southward expansion seemed to Australians to make control of the islands to their own immediate north even more necessary than it had been before. The suggestion that the former German possessions in the Pacific should be brought within the newly devised mandate system was accordingly opposed tooth and nail by W. M. Hughes, the Australian Prime Minister, when the problem was raised at the Peace Conference. Under the mandate scheme as originally framed, Australia would have been obliged not only to refrain from fortifying the territories entrusted to her, but also to leave the door open to the goods, and, worse still, to the nationals of all countries. The economic value of the islands was their least attraction in Australian eyes; the prime motive behind the Australian demand for outright annexation was the fear the islands "might, if under foreign or international domination, become crowded not with their own islanders, whom

<sup>10</sup> *Op. cit.*, p. 765.

<sup>11</sup> *Op. cit.*, p. 766.

no one feared, but with immigrants from China or Japan." Only when a special type of mandate was devised to meet the special situation in the Pacific, under which the trustee power was not obliged to keep the door open to foreign commerce and foreign nationals, would Hughes agree to accept anything short of full possession of the territories which Australia had occupied during hostilities. Even then he only agreed when persuaded that Australia's tenure of her C-class mandate would be "the equivalent of a 999 years' lease as compared with freehold," and he afterwards told the press that he had only been defeated in his fight for outright annexation by "overwhelming odds." "It had been proposed," he said, "that an open door policy should be maintained in regard to those islands. He could not agree to that. There could be no open door in regard to the islands near Australia. There should be a barred and closed door—with Australia as the guardian of the door." The door to Asiatic immigration to the Mandated Territory was barred by the very first ordinance passed under the new system, which extended to the islands the application of the Commonwealth Immigration Act.<sup>12</sup>

The immigration issue was raised in another form at the Peace Conference by the Japanese demand for the formal recognition of the principle of racial equality, and the Australian attitude on this question was even more intransigent than it had been on the question of the mandates. In every formula suggested by the Japanese delegation Mr. Hughes detected a demand for the right to immigration which, if admitted, might render impossible the maintenance of the "White Australia" policy. Mr. Hughes insisted that his opposition to the inclusion of a "racial equality" clause in the League Covenant implied no reflection on the Japanese people, but merely a refusal to tolerate any attempt to force a modification of Australia's established immigration policy. So great was Mr. Hughes's "nuisance value" in the deliberations at the Peace Conference that on this as a number of other points he got his own way and the "racial equality" clause was omitted.<sup>13</sup>

The struggle over the question of the former German territories in the Pacific and over the racial equality clause roused tremendous interest in Australia and all the old fears were

<sup>12</sup> *Op. cit.*, pp. 784-7.

<sup>13</sup> *Op. cit.*, pp. 789-97.

stirred up once more. The "White Australia" policy, no longer challenged within Australia, had been challenged from without, and the challenge had come from a power whose share in the spoils of war had brought her geographically much closer to Australia than she had been before. The Australian Government expressed itself as bitterly disappointed at the refusal of the Powers to allow the outright annexation of New Guinea, and its misgivings about the arrangement were increased by a formal declaration tendered at the time when the mandates for the Pacific islands were issued by the League. This document reaffirmed the Japanese Government's conviction that the principle of the "open door" should have been applied to the C-class mandates. The Japanese Government consented to the issue of the mandates in their present form "only from a spirit of conciliation and co-operation, and their reluctance to see the question unsettled any longer. . . ." That consent, the declaration continued, "should not be considered as an acquiescence on the part of His Imperial Japanese Majesty's Government in the submission of Japanese subjects to a discriminatory and disadvantageous treatment in the mandated territories; nor have they thereby discarded their claim that the rights and interests enjoyed by Japanese subjects in these territories in the past should be fully respected."<sup>14</sup>

So far from leading to a modification of the "White Australia" policy, the deliberations of the Peace Conference, insofar as they concerned Australia, only served to intensify an old fear, to confirm the Australian Government in the wisdom of its immigration policy, and to bring about an explicit extension of the "White Australia" policy to cover island territories under Australian control as well as the Australian mainland itself.

### *Collective Security in the Pacific*

In view of the anxiety regarding Japan aroused during the War and immediately afterwards, it was not surprising to find the Australian Prime Minister at the Imperial Conference in 1921 arguing strongly in favor of the retention of the Anglo-Japanese Alliance which had always been regarded as an important safeguard of Australian security. Concern at the abandonment of the treaty was allayed, however, by the erection in 1922 of the collective system evolved at the Washington Conference.

<sup>14</sup> *Op. cit.*, p. 796.

Australia became a party to the Four Power Treaty guaranteeing the preservation of the *status quo* in regard to insular possessions in the Pacific, the Five Power Treaty for the Limitation of Naval Armaments, establishing the 5:5:3 ratio for the tonnage of capital ships as between Britain, the United States and Japan, and restricting fortifications in the Western Pacific, and the Nine Power Treaty binding the contracting parties to respect the territorial and administrative integrity of China, and preserve the "Open Door." The growth of the collective security system, the increase in the prestige of the League, and finally the signing of the Kellogg-Briand Pact in 1928, all helped to give Australia a sense of security in the post-war years which left her free to take advantage of the prosperity resulting from high prices for her exports and lavish government borrowing and spending. In the maintenance of Australian prosperity in these years, trade with the Far East played a part of steadily increasing importance. Australia was able to take advantage of the rapid development of Japanese industry which had taken place during the War. Exports of wool and wheat to Japan increased more than threefold between 1911 and 1918-19 and zinc, lead and iron ore began to appear as important items. "Japan had developed into a manufacturing country rivalling Great Britain, and was drawing heavily upon Australia for foodstuffs and raw materials."<sup>15</sup> Before the War Australian imports from Japan had comprised mostly Eastern goods of the traditional kind, but in the 'twenties apparel and textiles, fertilizers, bags and baskets, china and earthenware, fancy goods, furniture, oils and waxes became the principal items. From the end of the War until 1929, trade with Japan amounted on the average to about five per cent of Australia's total trade, with exports showing a steady increase. Thus after the alarms of the years immediately following the War, Australian-Japanese relations settled down on a more friendly and mutually profitable basis.

One further development occurred during the 'twenties which is not only important in itself, but serves also to illustrate the curious intermingling of hope and fear which characterizes Australia's attitude toward Japan. Partly as a result of the close collaboration between the Australian and Japanese navies during the war, partly through recognition of the prin-

<sup>15</sup> H. L. Harris, *Australia's National Interests and National Policy*, p. 77.

ciple that it is wise to know your potential enemy and partly because of the growing importance of the commercial relations between Australia and Japan, the Australian Government sponsored in 1918 the establishment of the study of Oriental history and languages in Australia. A Department of Oriental Studies was created in the University of Sydney, financed partly by the University and partly by the Department of Defense. From 1918 to 1921 the new chair was occupied by Professor James Murdoch, the well-known historian of Japan. The Professor of Oriental Studies was required to give instruction in the Royal Military College, and a small number of officers in the College were trained intensively in Oriental history and the Japanese language.<sup>10</sup> Several graduates of the college were sent to Japan to extend their training in these subjects. At the same time the teaching of Japanese was inaugurated in several Australian secondary schools. The practice of sending graduates of the Military College to the east was discontinued after a few years, and the teaching of Japanese in the schools was abandoned. But the Department of Oriental Studies still functions in the University of Sydney and Oriental History is still retained in the Military College curriculum. Instruction in the Japanese language is now offered also in the Universities of Melbourne, Adelaide and Queensland.

#### *Relations with China*

Little has been said in this introductory chapter regarding Australia's relations with China between 1894 and 1931, because there is little to say. Since the settlement of the immigration issue at the beginning of the century Australia has had few political contacts with China except as a participant in international conferences and agreements. Individual Australians, such as Dr. G. E. Morrison and Mr. W. H. Donald, have played a significant role in China's internal struggles, and individual Chinese have become prominent in Australian commercial life, but these are contacts which there is no room here to discuss. Commercial relations on a relatively small scale have been maintained for many years, exports including such items as wheat and flour, sandalwood, *bêche-de-mer*, and railway sleepers, and imports covering an extensive range of articles

<sup>10</sup> The present Australian Government Commissioner in Japan, Lieut.-Colonel E. Longfield Lloyd, was one of the students who received this special training.

of which linseed and other vegetable substances have been most important. The wheat and flour export trade to China showed signs of becoming quite important in the 'twenties, but American and Canadian competition was a serious limiting factor and the market fluctuated violently. Only since 1930 have these items assumed proportions sufficiently large to make them significant either for China or Australia. It is only important to note at this stage that for many years China's "four hundred million" have been talked of in Australia, sometimes with extravagant optimism, as a great potential market. The rise and fall of these hopes in recent years remains for discussion in a later chapter.<sup>17</sup>

<sup>17</sup> For an interesting account of the role of Chinese settlers in Australia see *A Century of Sino-Australian Relations* by Chun-Jien Pao, Chinese Consul-General in Australia, Sydney, 1938.

## CHAPTER II

### AUSTRALIA AND THE FAR EAST, 1930-1935

#### *Effects of the World Depression*

The years of depression and recovery saw great changes in the character of Australia's relationship with the countries of the Far East. Trade with China and Japan shrank at first, as it did with most countries of the world, but recovery came more quickly in the trade with these two countries and this recovery substantially assisted Australia in those difficult years when an export surplus became a vital economic necessity. The part which expansion of exports to China and Japan played in Australia's return to prosperity gave these countries a new importance in Australian eyes and high hopes of an increasingly profitable exchange of goods, particularly with Japan, for a time pushed into the background the mistrust with which Australia had long regarded the most powerful of her northern neighbors. A more detailed examination of the factors affecting these changes in the trade and trade policy of Australia will reveal the close interdependence of the domestic problems and policies of Australia and her neighbors in Eastern Asia.

The importance in Australia's economy of the export trade in primary produce and her dependence, as a young and developing country, on capital from external sources has long made her extremely susceptible to economic changes in the outside world. She felt the onset of the world depression immediately in 1928, since the prices of her staple exports on the world market dropped sharply and the inward flow of capital ceased. The average export value of a bushel of wheat, which had been 6s. 8d. in 1924-5, fell from 5s. 9d. in 1929-30 to 2s. 5d. in 1930-1, and the export value of greasy wool, which had been 19.63d. for the five years 1924-8, dropped to 9.16d. in the year 1930-1. With the slump in value of her principal exports, Australia's external credit declined to a point at which it became impossible to continue overseas borrowing. For years Australia had been enabled by overseas borrowing to support an annual

excess of imports over exports, but when the value of exports dropped from £140 million sterling to £90 million, the funds available in London to pay for excess imports dwindled alarmingly. With borrowing at a standstill it became imperative that the hitherto adverse balance of trade be transformed into a favorable one; not only was it no longer possible to pay for a surplus of imports, but an excess of exports had to be built up in order to meet fixed interest payments on existing loans.

The first measure adopted was to raise the tariff with a view to curtailing imports. This action was taken by the Labor Government late in 1929 and early in 1930. A second measure adopted in the emergency was to allow a substantial devaluation of the Australian currency. Both of these measures had important effects on trade with Far Eastern countries which will be noted below.

Meanwhile Japan, too, had felt the brunt of the world depression. Her raw silk exports declined as disastrously as had Australia's exports of raw wool. The position of her primary producers was infinitely more serious than that of the pastoralists and wheat growers of Australia, and the ever-pressing problem of providing food and employment for an increasing population called for drastic action to save the country from disaster. Japan chose to attempt the solution of her problem not by the reduction of her imports, as Australia had done at first, but by launching upon the markets of the world the produce of the industrial machine which she had steadily been building up in the pre-depression years. A depreciated currency, cheap labor, and, more important still, a high degree of efficiency made an amazing expansion of exports possible especially after 1932.

#### *Trade with Japan and China*

Disastrous as this expansion proved to other, older manufacturing countries, its effect upon Australia as a primary producing region was almost wholly beneficial. From the Australian point of view, Japan now became not a dangerous competitor, but an invaluable market for raw materials and foodstuffs. Just when Australia needed urgently to enlarge the volume of her exports, Japan's industrial development led her substantially to increase her takings of Australian wool, wheat and other produce. Between 1929 and 1933 Japan more than doubled her total imports of raw wool, and of this total Aus-

tralia supplied annually an average of 96 per cent.<sup>1</sup> From Australia Japan imported 225,600,000 pounds of raw wool in 1933 as compared with 108,200,000 pounds in 1928, and the percentage of Australia's total wool exports shipped to Japan increased from 13.2 per cent in 1928-9 to 20 per cent in 1933-4. Japan's imports of Australian wheat jumped from 1,686,685 centals in 1929-30 to 10,775,964 centals in the following year. The value of exports to Japan in 1933-4 was not a great deal higher than the total for 1928-9 but by then the value of exports in most other directions had fallen by half and Japan's share of Australia's total exports had risen from 8.3 per cent in 1928-9 to 12.1 per cent in 1931-2. In the total trade with Japan, increased exports gave Australia a favorable balance which amounted in 1935-6 to over £9 million sterling—more than one third of the amount needed annually to meet overseas interest payments.

Exports to China also assumed a new importance for Australia during the depression, wheat being the key commodity in a trade which assumed highly significant proportions in 1931. Chinese purchases of Australian wheat had often shown promise of becoming considerable, but on the whole in the post-war decade Australia enjoyed a relatively small share of the Chinese wheat market. In 1929-30 China imported no wheat from Australia at all. But in 1930-1 purchases totaling no less than 14,639,816 centals made her in that year Australia's largest customer for wheat. This figure was increased in each of the next two years, reaching 20,244,146 centals in 1932-3.

China also became an important buyer of Australian flour, her takings increasing from 4,704 centals in 1929-30 to 40,412 centals in the following year, and to 3,201,246 centals in 1932-3. The fact that the world depression hit China later than it hit Australia and the price advantage which Australia enjoyed as a result of the depreciation of her own currency help to account for this remarkable expansion of Australia's wheat exports to China, and the results of this expansion were important for both countries. Australia became for a time China's chief supplier of foreign wheat, displacing both Canada and the United States in the Chinese wheat market, and began to figure as one of the most important suppliers of Chinese imports. Although

<sup>1</sup> Imperial Economic Committee's report on World Consumption of Wool

after 1931-2 Chinese purchases of Australian wheat dropped again, and China once more became a fluctuating and unpredictable market, she had provided Australia during three bad years with a sorely needed market for her wheat.

From what has been said it should not be difficult to appreciate the new importance for Australia assumed by the trade with China and Japan during the world depression. In these countries Australia found an increasing demand for her two staple exports, wool and wheat, just when other markets were contracting and when the volume and value of her exports generally had declined so seriously as to threaten her financial solvency.

While Australia felt the benefit of increased Japanese imports of foodstuffs and raw materials during the early 'thirties, she also felt the impact of Japanese industrial expansion in the form of increased pressure on her own market for manufactured goods. Australian imports of Japanese goods had declined at the onset of the depression and more especially after the high tariff increases late in 1929 and early in 1930. The total value of Australia's imports from Japan dropped from £A4,707,299 in 1928-9 to £A2,379,558 in 1931-2. But thereafter they increased rapidly both in value and volume. In 1932-3 their value had risen to £A3,536,581, and in 1934-5 to £A4,624,740. Much more striking than the increase in value of Japanese imports was the quantitative increase in imports of cotton and rayon textiles, which constituted the principal items in the import trade from Japan. In 1926, Japan provided Australia with approximately 24 million square yards of cotton piece goods out of a total of 222 million square yards imported. But in 1932 Japan's share rose to 36 million and in 1935 to 87 million square yards out of a total in each year of approximately 210 million square yards. The total yardage of Japanese rayon piece goods in 1926 was not sufficiently large to warrant separate record in the official statistics, but in 1932 Australia purchased 8.5 million square yards and two years later 66 million square yards of artificial silk from Japan.<sup>2</sup>

Those Australians who benefited from Japan's increased purchases of wool, wheat and other primary produce, and those who felt that from the consumers' point of view cheap Japanese

<sup>2</sup> These textile figures are from tables in *Memorandum on Recent Tariff Changes as They Affect Japan*, issued by the Commonwealth Government in 1936.

textiles and other manufactured goods were a boon in difficult times, welcomed the rapid development of commerce between Australia and Japan. They saw in it the realization of the old hope that the complementary needs of Australia and the Far Eastern countries would lead to the development of an extensive and mutually profitable interchange of goods and an increasingly friendly political relationship. This view was shared by others who appreciated the importance of the part played by the Eastern trade in enabling Australia to achieve the favorable balance of payments with the outside world which became so essential for the preservation of solvency during the depression years. Despite the remarkable increase in imports from Japan, the even greater increase in exports thither and to China had swung the trade balance with each of these countries even more heavily in Australia's favor than it had been before the depression.

There was a wave of optimism regarding the future of Australian commerce with the Far East as great as that which had swept the colonies in the 'nineties, but this time the optimism rested on more solid foundations than it had in the earlier period. The trade had actually assumed proportions of major significance, and there was good reason to expect that its importance would continue to increase. Merchants, economists and government officials studied the situation carefully. In the latter part of 1931 Dr. A. C. V. Melbourne of the University of Queensland, who later became Chairman of a Federal Advisory Committee on Eastern Trade, and Mr. (now Sir) Herbert Gepp, Consultant on Development to the Australian Government, each visited the Far East to survey trade prospects and each submitted reports which emphasized the opportunities awaiting Australia, particularly in China and Japan. In the following years there was much active discussion of the trade future in the Orient, the tenor of which was indicated in a report published by the Bank of New South Wales in 1934,<sup>3</sup> and in a comprehensive survey of Australia's relations with the Far East published by the Australian Institute of International Affairs in the following year.<sup>4</sup> "The industrialization of Japan," said the bank's report, "promises to bring with

<sup>3</sup> *Australia and Industrial Development in Japan*, Bank of New South Wales Circular, Vol. IV, March 1934.

<sup>4</sup> I. Clunies Ross, ed., *Australia and the Far East*, Sydney, 1935.

it great possibilities for the development of markets for Australian foodstuffs and raw materials. . . . Australia needs markets for her primary products. The great potential markets for those products are the Far Eastern countries. Of these countries, China is at present the largest buyer of our wheat and Japan the largest buyer of our wool, but if Japanese living standards are allowed to improve, there is the possibility of selling more foodstuffs to Japan in the future." The writer asked "whether Australia has not now reached a point where her policy should be broadened to permit of the harmonization of the changes which are occurring in the Far East with her own economic needs." The report questioned the wisdom of attempting to make the British Empire a self-sufficient economic unit; "many have doubted the desirability of any such objective, and even if it were desirable it is extremely doubtful if it is possible. The trend in Great Britain towards a diminution of imports of foodstuffs raises still further difficulties, and in the face of the rapid growth of Japanese industry, it is difficult to resist the conclusion that any survey of the rational ends of Australian trade policy in the circumstances of today must offer a more prominent place to interchange of goods with the east than it has occupied in the past."<sup>5</sup> In the volume on *Australia and the Far East* it was also pointed out that "On the basis of climate and other more pliable factors in comparative costs it would appear inevitable that Australia's trade with the Far East should expand, as the latter's population grows and her industries develop."<sup>6</sup> After a survey of the trade relations between Australia and Japan, the author of one chapter declared that "Australia has a very real interest in the progress of Japanese industry and the material welfare of the Japanese people. It is not too much to say that the future prosperity of Australia will to an increasing extent be dependent on that of her great neighbor in the Far East."<sup>7</sup> The chapter on the possibilities of the China market deprecated exaggeration of the immediate opportunities open to Australia and stressed the political and other difficulties preventing the transformation of a potential into an actual demand for Australian goods in China, but declared that "we are indeed in the presence of a great market," albeit, "a market wherein

<sup>5</sup> Bank of New South Wales Circular, *loc. cit.*, pp. 8-9.

<sup>6</sup> I. Clunies Ross, *op. cit.*, p. 150.

<sup>7</sup> *Ibid.*, p. 185.

wise planning is necessary if the fruits of progress are to be won."<sup>8</sup>

Experts on the subject were unanimous in recommending the appointment of official representatives of Australia in the East and on the desirability of the government adopting a clear and consistent policy in respect to the Eastern trade. Most of them were careful to qualify their optimism by stressing favorable political conditions as an essential prerequisite for continued progress. "Political factors are potent in international trade, and our own dealings with the Far East may be influenced just as much by her relations with the outside world as with Australia directly. Equally complicated are the reactions of tariff policy. . . . The prospects of Australia's trade with the Far East . . . depend ultimately upon the degree of co-operation which our resources make possible, and upon our willingness and the willingness of eastern countries and of the outside world to place peace and prosperity before self-sufficiency."<sup>9</sup> The author of the bank report also made the important reservation that the chances of effective development of Australia's share in the Eastern markets might "be seriously diminished by an excessively suspicious attitude towards the entry into Australia of Japanese goods, which would encourage Japanese buyers to turn elsewhere for their supplies."<sup>10</sup>

#### *Fear of Japan's Advance in the Australian Market*

The fears expressed in 1935 that policies of autarchy and high protection might prevent the continued development of trade between Australia and the Far East were soon to be realized, and a suspicious attitude toward Japanese imports was already prevalent in Australia when the bank report was issued in 1934. As in the 'nineties, there were groups in Australia who viewed the expansion of trade with Japan in particular with increasing concern. Certain Australian manufacturing interests feared the influx of products of Japanese industry as the thin end of a wedge which might eventually destroy Australia's own industrial structure. Actually it has been shown that remarkably few of the commodities which figured largely among Australia's imports from Japan were competitive with articles of Austral-

<sup>8</sup> *Ibid.*, p. 284.

<sup>9</sup> *Ibid.*

<sup>10</sup> Bank of N. S. W. Circular, *loc. cit.*, p. 8.

ian production and manufacture.<sup>11</sup> Still it was argued that once Japan got a foothold in the Australian market, she would pour in more and more goods in the competitive class.

Australian textile importers were also unfavorably disposed toward the Japanese trade in many cases, though less on grounds of general policy or fears for the future, than because of dissatisfaction with Japanese commercial methods. They could understand the Japanese selling goods at a price below that of British articles already on the market in Australia. That was merely legitimate competition. What embarrassed them was the wide margin by which the Japanese undersold their competitors, and the instability of Japanese prices. It was alleged that before an Australian importer could dispose of a shipment of Japanese rayon which he had purchased at what seemed to be a ridiculously low price, he would often find that other importers had received a later shipment at a price so much lower that the unsold portion of the first shipment would have to be retailed at less than cost. Under these conditions the Australian middleman was often deprived of his profit, and it was not surprising that he should view the Japanese advance in the Australian textile market with some hostility. The advent of Japanese textiles in large quantities in the Australian market created problems of adjustment for the wholesale and retail traders which were not made easier by the unpredictable price variations that were a feature of Japanese marketing in the early stages.

The very rapidity with which the volume of imports from Japan increased frightened many Australians, and in certain sections of the press there was much talk of "dumping" which intensified public concern. The Melbourne *Age* conjured up once more the old dread of a Japanese "menace." A leading article in 1933 declared that "facts daily increasing attest how serious is the menace to this country of the imports of cheap Japanese goods. There is in progress a trade war in which Australia's secondary industries are bound to suffer defeat unless not merely Governmental but social and individual action is taken in their defense. The standard of living of the workers,

<sup>11</sup> K. J. Bions in *Studies on Australia's Situation in the Pacific*, published by the Victorian Division of the Australian Institute of International Affairs for the Sixth Conference of the Institute of Pacific Relations, 1936, p. 75. See also Bank of N. S. W. Circular, *loc. cit.*, p. 8.

the reasonable profits of manufacturers, the opportunities for the unemployed, the prospects of young people ready to enter the economic field—all are being placed in greater jeopardy owing to the unfair competitive liberty being allowed to a foreign country. It is not due to Japan's superior technical skill or industrial organization, but to methods Australia can be relied upon never to adopt—mean wages, serf conditions, a seven-day week, child labour."<sup>12</sup> Tirades like this were strongly reminiscent of those with which the *Age* and certain other Australian papers had greeted news of Japan's industrial progress in the 'nineties, and however questionable their premises they carried a great deal of weight with an Australian public traditionally suspicious of Japanese aims.

Curiously enough there does not seem to have been much concern felt in Labor circles at the increase in imports from Japan. The Labor press consistently approved attempts by the Government to promote the Eastein trade even though it denounced Japanese imperialism in Manchuria. The Labor attitude at this time is in marked contrast with the attitude of the same section in earlier years when Japanese industrialization was thought to constitute a menace to the Australian standard of living, and with the attitude adopted after 1937, when Labor groups were actively to advocate boycotting of both the import and export trade with Japan. Labor's attitude between 1932 and 1936 perhaps reflects a realization that Japanese imports during these years were not to any great extent competitive with the products of Australian industry and an appreciation of the fact that the cheapness of Japanese goods was of considerable advantage to people in the lower income brackets in Australia.

### *Japanese Competition with British Textiles*

The concern of Australian manufacturers, commercial men and sections of the Australian press was not nearly so great as that of the representatives of British interests in Australia. Actually no important Australian interest, save a section of the commercial community engaged in the textile trade, had suffered any actual damage as a result of the rapid increase in

<sup>12</sup> *The Age*, September 11, 1933, quoted by A. C. Pearson in *Press, Radio and World Affairs* (W. Macmahon Ball, ed.), Chapter II, p. 37. Pearson gives an excellent account of the attitude of the Australian press toward Japan during the period 1931-37.

imports from Japan which began in 1932. Australian groups were fearful of future developments rather than resentful of current losses. British textile manufacturers, however, had actually suffered a measurable loss in the Australian, as in the Indian and other markets, because of the rapid advance of Japanese cotton and rayon piece goods. The extent of this advance in the Australian market has already been indicated, and it is only necessary to point out here that much of Japan's gain had been Lancashire's loss. In the ten-year period from 1926 to 1935, despite an increase of some 27 million square yards in Australia's total purchases of cotton and rayon piece goods, imports from Britain declined by almost 62 million square yards. In 1934 Japan displaced Britain as the largest supplier of textiles to Australia. A particularly disturbing feature of the situation from the British point of view was that Japanese competition, hitherto confined to the cheaper grades of cloth, was now extending into the high-priced market. In many parts of the Empire, increased imports of Japanese textiles had resulted from the growth of a demand for cloths cheaper than Lancashire could provide, and thus part of the decline in the proportion of the textile needs of these areas supplied by Britain represented a relative rather than an absolute loss. In Australia, however, there was actually a slight decline in the per capita consumption of textiles between 1926 and 1935 which meant that the decline in Britain's share of the market represented an absolute loss. Since textiles constituted the largest single item in Australia's imports from Britain, concern on the part of British exporters was readily understandable.

It is important also to notice that concern at the displacement of British textiles and other manufactured goods in the Australian market by articles of Japanese manufacture was not confined to British exporters. The ties of sentiment binding Australia to Britain were and are sufficiently strong to make many Australians regard this shift as regrettable, if not positively undesirable. Even from the economic point of view some Australians regarded the system of a self-sufficient Empire bloc, envisaged at Ottawa, as the most desirable basis of Australian policy, and saw danger in the growth of trade with Japan at the expense of Empire trade. Others held that there was strategic danger involved in undue dependence on the Far Eastern

trade, and that military security lay in the preservation of the closest possible economic relationship with Britain.

#### *Official Policy Regarding Eastern Trade*

Inasmuch as an appeal to old fears and long-established prejudices was more powerful than one to conclusions drawn from scientific analysis of economic trends, the public, other than those sections with a direct interest in the export trade, tended to adopt the fearful rather than the hopeful attitude toward the growth of trade with Japan. But it is important to notice that at least until the end of 1935, the Federal Government seemed to share the hopes rather than the fears and adopted a policy calculated to foster good relationships, economic and otherwise, with the countries of the Far East.

Even the marked upward revisions of the tariff by the Labor Government in 1929 and 1930 were motivated by a desire to curtail imports generally and were in no sense discriminatory against Japan, although their immediate effect was to reduce imports from that country. When a non-Labor coalition government under Mr. J. A. Lyons took office in 1932 it soon showed itself disposed to adopt a conciliatory attitude toward Japan and a policy generally designed to encourage trade with the Far East. In 1932 Japan benefited substantially from a general downward revision of the tariff and the Prime Minister declared that "the Government wanted to treat other countries not as enemies but as good customers."<sup>18</sup>

Early in 1933 the Minister for Commerce convened a Conference on Eastern Trade which was attended by representatives of the Commonwealth and State governments, the Consuls-General of Japan, China and the Netherlands, representatives of the Chambers of Commerce and Chambers of Manufactures of most of the states, representatives of the primary producers, and a number of other organizations. Resolutions were passed recommending the creation of Advisory Committees on Eastern Trade in each of the states and one for the Commonwealth, and urging the early dispatch of a trade delegation to the Far East. Later in the year committees of the kind suggested were appointed.

The Government seems also to have been impressed with the strong recommendations from various quarters that it estab-

<sup>18</sup> See London Times, March 24, 1932.

lish official representatives in the Far East and later in 1933 a Trade Commissioners Act was passed to provide for the appointment of one or more Trade Commissioners and Assistant Trade Commissioners of the Commonwealth. Before any appointments were made to Eastern countries, however, a "Goodwill Mission" toured the Far East early in 1934. The Mission was led by the Attorney-General, Mr. (now Sir) John G. Latham, who was given diplomatic status. Permanent Trade Commissioners were appointed to China, Japan and the Netherlands Indies in 1935.

Though the Commonwealth Government insisted that the Latham Mission was simply intended to create "goodwill," it was widely believed that the ground was being prepared for the conclusion of trade agreements, and there could be no doubt that the interest in the East which led to the dispatch of the mission was primarily commercial—a result of the great expansion of trade with Eastern countries during the depression years, and an indication of the importance attached by the Government to this development. "There is no doubt," said the *Sydney Morning Herald*, putting the cart before the horse, "that the friendly feeling between Australia and Japan that has been growing since the War . . . is largely instrumental in causing the increase of trade from which both countries have since benefited. Even as an indirect stimulus to our trade with Japan, the Ministerial visit promises to bear good fruit."<sup>14</sup> The Melbourne *Herald* welcomed the possibility of a trade treaty: "Trade agreements in the Pacific point the way of friendliness and reason. The Commonwealth Government is travelling the right road."<sup>15</sup>

From the time of its election in 1931 until the end of 1935 the Lyons Government certainly seemed to be traveling in the direction of closer friendship with the countries of the Far East, especially Japan. The compliment of Mr. Latham's mission to Japan was returned in 1935 by a visit from a Japanese Minister with diplomatic status who was most cordially received in Australia. There was every indication that an understanding on trade matters would shortly be reached, and preliminary discussions were actually begun in the latter part of 1935. The Government at that time was clearly in agreement with those

<sup>14</sup> *S. M. H.* December 6, 1933, quoted by Pearson, *op. cit.*, p. 36.

<sup>15</sup> *Herald*, October 26, 1933, quoted by Pearson, *op. cit.*, p. 36.

who believed that Australia should make the most of commercial relationships with the East which had already proved extremely valuable and which promised to become increasingly worthwhile in the future, both economically and politically.

### *Reactions to the Conquest of Manchuria*

While trade trends led the Australian Government to pay increasing attention after 1931 to economic developments in the Far East and even to adopt a positive policy of cultivating the friendship of Far Eastern countries with a view to promoting Australia's obvious commercial interests, the Australian official attitude toward political developments in that region was conspicuously noncommittal. When conflict broke out in Manchuria in September 1931, the Labor Government then in power in Australia was much too preoccupied with pressing internal economic and political problems to pay much attention to developments which, though ultimately likely to affect Australia profoundly, seemed to demand no immediate action on Australia's part. Similar preoccupations may account for the apathy of the new non-Labor government, which came into office before the League assembled in March 1932 to consider what action should be taken to deal with the critical situation in the Far East. It has been suggested, however, that the reluctance shown by Australian representatives at meetings of the League Assembly to advocate or even to support proposals for drastic international action to check Japanese aggression, was at least partly due to the attitude of the Country Party members of the Cabinet who represented those primary producing interests who were profiting so substantially from increased Japanese purchases of Australian wool and wheat.<sup>18</sup> The imposition of sanctions against Japan would certainly have involved great sacrifice on Australia's part, since it would have meant the cessation of wool and wheat exports to Japan at a time when those exports were helping Australia along the road to economic recovery. The Government was doubtless influenced also, in its attitude toward the sanctions proposal, by the fear that it might be the victim of Japanese military reprisals. At any rate Australia lay

<sup>18</sup> See F. Aarons, "What the League of Nations Means to Australia," Australian Preparatory Papers, British Commonwealth Relations Conference, 1938, Series D, No. 4.

low, and many citizens heaved a sigh of relief when nothing effective was done.

Australian public opinion on the Manchurian question was much divided. Undoubtedly many people were shocked by Japanese aggression, sympathetic with China as the victim, and eager to see Japan punished or at least restrained. Among a people long encouraged to believe in the system of collective security, disappointment at its breakdown in the face of this first great test was widespread. But on the other hand there were many who saw in Japan's expansion upon the Asiatic mainland an assurance that for a time at least the danger of a "southward advance" would be averted; with her hands full in Manchuria, it was argued, Japan would be too busy to bother with Australia. Still there was much talk of the possibility of war between Britain and Japan, should sanctions be imposed, and a good deal of fear that such a war might lead to Japanese attacks on Australia.

Views expressed in the press were many and various. The *Sydney Morning Herald* took a definitely pro-Japanese line: "The aggressor both in Manchuria and elsewhere, by direct action and by boycott, has been China;" "there cannot be much doubt that Russia has seized upon the misunderstanding between China and Japan to foment trouble;" Japan's object was "to clear Manchuria and Jehol of the curse of banditry."<sup>17</sup> The *Sydney Daily Telegraph* expressed the view that the same militarism that lay behind Japanese expansion in Manchuria must eventually lead her to attack Australia; beneath the heading "War with Japan is Inevitable" it declared that "Americans, New Zealanders, Australians, Englishmen and Dutch are convinced they must inevitably fight the Japanese."<sup>18</sup> Other papers ridiculed the idea of a Japanese attack upon Australia, and denounced the scare-mongers. The *Labor Daily*, though a supporter of China and the League, and insistent that the League must "act or quit," was equally insistent that Australia must not allow herself to be led into war and welcomed the Latham goodwill mission as an effort to counteract ill-feeling in Japan caused by "war-mongering propaganda in many Australian newspapers

<sup>17</sup> *S. M. Herald*, September 21, 1931, September 23, 1931, and February 28, 1932, quoted by Pearson, *op. cit.*, pp. 44-5. For a full exposition of the case advanced in support of these views one may consult F. M. Cutlack: *The Manchurian Arena*. Mr. Cutlack was the *Herald's* Far Eastern specialist.

<sup>18</sup> *Daily Telegraph*, November 1, 1933, quoted by Pearson, *op. cit.*, p. 48.

and utterances by public men in the Commonwealth" concerning "aggression from the East." Other papers were noncommittal or only mildly interested.<sup>19</sup>

While the Manchurian affair evoked a host of different opinions from the man in the street, and from the press, and no positive response at all on the part of the Government, there can be no doubt of the importance of its long-range effect upon public opinion and official policy in Australia. It was the first of a series of blows at the Australian confidence in the collective system, the system which Australia along with other small powers had come to regard as one of its principal safeguards. And Australian concern was the greater because the first serious blow to the system had been dealt by Japan, Australia's near neighbor, and the neighbor traditionally regarded as the one most likely to threaten Australia's security. The Manchurian affair and the alarms which followed in the sections of the Australian press also did much to make the public sympathetic with the sudden reversal, in 1936, of the Government's friendly policy toward Japan—a change which forms the main topic of the following chapter.

<sup>19</sup> *Labor Daily*, February 17, 1932, December 2, 1933, quoted by Pearson, *op. cit.*, pp. 46-8.

## CHAPTER III

### AUSTRALIA AND THE FAR EAST 1936-1937

#### *Trade Negotiations with Japan*

At the beginning of 1936, despite the growing feelings of insecurity created in Australia by the crumbling of the collective system in the Pacific and new manifestations of Japanese aggressiveness, and despite the concern felt in many quarters at the rapid increase in Japan's share of Australia's imports, the Australian Government to all outward appearances still adhered to the policy developed since 1932 of fostering close commercial and friendly political relationships with the countries of the Far East, particularly Japan. As late as March 1936, the Minister for Commerce, Sir Earle Page, declared that "Australia has watched with admiration the rise of Japan to the first rank of world powers and we hail with hope the possibilities for extension of our trade to Japanese ports."<sup>1</sup> Negotiations had actually begun in the latter part of 1935 for the conclusion of a trade agreement, and although it was known that difficulties were encountered early in the discussions, it was generally assumed that an agreement satisfactory to both parties would soon be reached. As already indicated, there were powerful sections in Australia who were strongly opposed to any further expansion of imports from Japan, but informed opinion was that the national interest, as distinct from sectional interests, lay in the promotion of trade and goodwill between Australia and Japan. As one writer put it, "Australians have a vested interest in the expansion of Japan's industries and the raising of eastern living standards. Geographically and by natural endowment the future of Japan and Australia is inseparably linked together, and enlightened trade policy in both countries should be designed to exploit their mutual interdependence."<sup>2</sup> The Government had denied any intention of sacrificing Australia's all-important trade with

<sup>1</sup> Quoted by C. Hartley Grattan, "Australia and Japan," *Asia*, Vol. XXXVIII, No. 11, Section 2, p. 690.

<sup>2</sup> *Ibid.*

Britain, but had expressed its belief that Australia must depend to an increasing extent on foreign markets for the expansion of her trade.<sup>3</sup>

Yet on May 22, 1936, without previous warning, the Government announced a new "trade diversion" policy, the immediate effect of which was to start a trade war with Japan. In view of the Government's earlier public statements, the restrictions on Japanese imports now imposed came as a complete surprise to most Australians, even to those to whom the restrictions were most welcome. The new policy respecting Japanese imports seemed to be a complete and unaccountable reversal of the old, a reversal so sudden as to lay the Australian Government open to a charge of bad faith in its dealings with Japan.

It is probable, however, that the new restrictions came as less of a surprise to those who took part in the negotiations for a trade agreement, to the governments they represented, and even to the Japanese public, than they did to the public in Australia. These discussions were, of course, confidential in character, and their precise course remains undisclosed. It has been suggested, however, that far from approaching complete agreement, as many outside observers had hoped, a deadlock had actually been reached in the early months of 1936.<sup>4</sup> The Australian Government apparently sought from the outset to obtain a voluntary limitation by Japan of her textile exports to Australia at a level somewhat lower than that of 1935 when they reached their peak. In return for this limitation, and for concessions in the Japanese market for Australian produce, the Australian Government offered to give Japan the benefits of the new "Intermediate Tariff"—lower than the General Tariff but higher than the British Preferential Tariff—a rate instituted especially for the benefit of countries entering into trade agreements with Australia. A bargain on these terms was not acceptable to Japan. The margin of preference offered under the Intermediate Tariff was not great enough to constitute a very powerful attraction and the Intermediate were so much higher than the British Preferential rates that the advantage conferred by them from the Japanese point of view would be almost negligible. Quotas

<sup>3</sup> Earle Page in *Australian Foreign Policy: 1935-36*. Data paper submitted by Australian Institute of International Affairs, Yosemite Conference I. P. R. 1936, p. 28.

<sup>4</sup> See N. F. Hall, "Trade Diversion": An Australian Interlude," in *Economica*, Vol. V (New Series), No. 17, February 1938, p. 1 *et seq.*

and high tariff walls already erected against Japanese manufactured goods in many other parts of the world made her loath to accept any restriction of the Australian market for her textiles, particularly at a lower level than that already attained. The Hon. C. A. S. Hawker pointed out<sup>5</sup> "credit difficulties had filled the public mind in Japan with an almost feverish sense of the urgency of making overseas sales . . . such that they could brook no curb in markets where the size of their purchases appeared to give them the commanding word." The same acute observer has also drawn attention to the unfortunate coincidence of the trade negotiations with the *coup d'état* attempted by the young officers in Tokyo in February 1936. This was scarcely the time for the Japanese Government to agree to further restrictions upon Japanese exports, especially at the request of a country from which Japan already purchased much more than she sold.<sup>6</sup> The Japanese government, instead of agreeing to limit the export of textiles to Australia, strongly pressed its claim to more favorable tariff treatment for Japanese goods. Moreover it sought to incorporate in the agreement a provision enabling Japan to prohibit the importation of wheat to Japan, except for conversion into flour for export.<sup>7</sup>

Apart from the conflicting character of the demands made by the two parties to the negotiations, it was afterwards claimed by spokesmen for the Australian Government that the success of the discussions was prejudiced by the tactics adopted in Japan in the attempt to bring about an agreement. Hawker refers to "an inspired press campaign" in Japan during April and May 1936, directed against possible tariff action by Australia. "It was both intemperate in its threats and obviously well informed by official leakages about the course of confidential negotiations. Possibly

<sup>5</sup> C. A. S. Hawker in *Austral-Asiatic Bulletin*, Vol. I, No. 1, April, 1937, p. 7.

<sup>6</sup> In this connection the following extract from a Japanese War Office Pamphlet issued in October 1934 is significant: "Economic war may be regarded as constituting the principal portion of a war. . . . At a time like the present when various nations are facing each other through the medium of blocs and are beginning to adopt a protective policy in foreign trade the Empire will be obliged to formulate policies necessary to face such a situation. If any country should adopt a policy to control exports and imports mutually and to place restrictions upon quantities and prices of merchandise and to enforce unlawful tariff rates against other countries, the Empire would be obliged to take retaliatory measures." (Privately translated)

<sup>7</sup> Official Memorandum: *Trade Diversion Policy with special reference to its application to Japan* (mimeographed).

it was to break gently to the Japanese interests likely to be affected, the fact that promising negotiations had suddenly headed for a break. It may have been intended to stimulate Japanese sentiment to stand up to the loss and inconvenience of a pending dispute. Possibly it was hoped that it might reach the Australian public over the head of the Government which had given no hint of impending trouble. Whatever its motive the campaign must have looked like such a breach of confidence as would make further negotiations futile.<sup>8</sup> More important still as a factor leading to the breakdown of negotiations was the impression gathered by the Australian negotiators that the "main objective" of the Japanese "was to break through the principle of British preference."<sup>9</sup> The Australian Government also alleged, after the dispute had broken out, that during the negotiations for an agreement the Japanese representatives had threatened retaliation in the event of any Australian attempt to restrict imports of Japanese textiles by tariff action. "In other words," said the Prime Minister, "Japan attempted to limit our tariff making powers."<sup>10</sup>

Whatever specific difficulties may have been encountered in the course of the negotiations for an Australian-Japanese trade agreement, one broad general consideration helps to account for the eventual breakdown. Neither party was able to view the trade relations between the two countries in isolation from associated domestic and international problems. The attitude of Japan was conditioned by internal political difficulties and by the realization that the demand for the curtailment of textile shipments to Australia was only one of a series of attempts to limit Japan's exports to various parts of the world at a time when a general increase of her exports was vitally necessary. The Australian attitude was conditioned by the agitation at home for the limitation of imports from Japan, and by sentimental, political, strategic, and even some economic qualms about the inroads made by Japan on the extremely valuable trade with Britain, and the consequent weakening of the Ottawa system. Moreover, while the position was thus complicated for each party by considerations apart from the actual trade rela-

<sup>8</sup> Hawker, *op. cit.*, p. 7.

<sup>9</sup> Private letter from Minister for Trade Treaties, July 1936.

<sup>10</sup> Address broadcast by Prime Minister, June 25, 1936. For a summary of this address see D. B. Copland, and C. V. Janes, *Australian Trade Policy: A Book of Documents* (Sydney, 1937), p. 269 *et seq.*

tionship between Australia and Japan, "each government was acutely aware of its own country's difficulties and but dimly conscious of those of the other."<sup>11</sup> It was under these conditions that the negotiations for a trade agreement were discontinued and the Australian government embarked upon an attempt to achieve by drastic tariff action what it had failed to gain by negotiation.

### *The Trade Diversion Policy*

On May 22, 1936, Sir Henry Gullett, the Minister Directing Negotiations for Trade Treaties, announced to Parliament the Government's decision to divert a portion of Australia's import trade, "with the object of increasing exports of primary produce, expanding secondary industry, and bringing about an increase of rural and industrial employment." The importation of certain goods was to be restricted in order to promote their manufacture in Australia, and it was intended to divert certain other imports from "bad customer" to "good customer" countries. Two methods were to be adopted to achieve these ends; a special licensing system was to be applied to a limited range of imports, and in certain cases higher customs duties were to be imposed. With the exception of motor chassis, goods from the United Kingdom were not to be subject to the licensing system, and it was announced that licenses would be granted freely in respect of imports from countries with which Australia had a favorable balance of trade.<sup>12</sup>

The new policy was not designed exclusively to regulate the trade with Japan, who in point of fact was Australia's second best customer. In large part it was an attempt to reduce the volume of imports from the United States, a "bad customer" country whose exports to Australia far exceeded her imports of Australian produce. The Government also hoped to place Australia's "financial affairs in a sound and enduring position," facilitate the renewal of immigration "on a basis not harmful, but helpful to every industry and worker in the country," and make a "significant indirect contribution to defense."<sup>13</sup>

Insofar as the new policy sought to strengthen Australia stra-

<sup>11</sup> Hawker, *op. cit.*, p. 7.

<sup>12</sup> *Official Year Book of the Commonwealth of Australia, No. 30, 1937*, p. 493, and Copland and Janes, *op. cit.*, p. 259 *et seq.*

<sup>13</sup> Sir Henry Gullett, as quoted in *Round Table*, No. 104, September 1936, p. 843.

tegically, by stimulating domestic industry and more especially the manufacture of automobile parts, and insofar as it sought to hasten the day when immigration could be renewed, the "trade diversion" episode reflected a certain uneasiness about the international situation and a feeling that in view of the character of Japan's foreign policy since 1931, Australia should strengthen her defenses and seriously attack the problem of building up her white population. To this extent it may be viewed as a reaction to political changes in the Far East. However its chief importance in the present connection arises from the fact that the trade diversion policy was designed very specifically, though not exclusively, to reduce the volume of Australia's imports from Japan. Not only was the licensing system applied to articles of Japanese manufacture, but the tariff revision struck a serious blow at textile imports from Japan. The old ad valorem duties on textiles were replaced by higher specific duties, under which the margin of preference allowed to British textiles was greatly increased. The full effect of this change upon Japanese textiles will be readily appreciated from the following specific illustrations given by the *Oriental Economist*.<sup>14</sup> Japanese voiles costing 16 sen per yard were dutiable under the revised tariff at 63 sen, while British voiles costing 40 sen per yard had to pay only 10.5 sen. Japanese cotton goods worth 14 sen per yard became dutiable at 19 sen while British cottons worth 20 sen per yard were taxed at 3½ sen. The new duties applied equally to textiles from all countries other than the United Kingdom, but since between them Japan and the United Kingdom supplied the great bulk of Australia's imports<sup>15</sup> of cotton and rayon textiles, the discrimination against Japan in fact though not in theory was very serious and very obvious.

It should be noticed that in the beginning of the dispute at least, the Australian Government proposed to rely upon increased duties rather than on the licensing system to effect the reduction of textile imports from Japan which it desired. Simultaneously with the announcement of the institution of the licensing system, the consuls of Japan and various other countries concerned were given assurances by telegraph that imports from their countries would not be limited under the licensing system,

<sup>14</sup> As quoted by N. F. Hall, *op. cit.*

<sup>15</sup> Japan provided 87 per cent of the rayon and 45 per cent of the cotton textiles imported by Australia during the year prior to the dispute.

and the Australian Trade Commissioner in Tokyo was asked to give a similar assurance to the Japanese Government.<sup>16</sup> When, however, the Japanese Government took the retaliatory step on June 25, 1936, of prohibiting completely the importation of Australian wool, wheat and flour,<sup>17</sup> except under license, and imposing additional duties on Australian hides and skins, beef tallow, butter, condensed milk, and casein, the Australian Government struck back a few days later by extending its own licensing system to cover almost all articles usually imported from Japan. Neither country gave any indication as to what licenses would be issued, each preferring to keep the other in suspense. Few, if any, licenses were in fact issued by either government, except that in the case of cheap unbleached calico used in the bagging of flour the Australian Government had to lower the tariff and admit the Japanese fabric in order not to penalize Australian flour exporters.<sup>18</sup>

One feature of the Australian Government's tariff action in this dispute which was particularly exasperating to the parties affected was that the changes announced on May 22 were made retroactive to March 15, 1936, in respect of cotton and rayon piece goods from Japan. Despite the protests which this aspect of the new policy evoked, from Australian as well as Japanese merchants, the Government again placed many importers in a difficult position when it made the July restrictions of which no previous warning had been given, effective as from the date of their announcement.

Since the trade diversion measures indicated a profound change in the policy of the Australian Government toward Japan, it seems desirable at this stage to attempt an analysis of the reasons for the new policy before tracing further the course of the dispute which resulted from its application or examining its effects on the commercial and political relationships between the two countries concerned. The general reasons given for the diversion policy as a whole have already been mentioned, but the special form which the policy assumed in its application to Japan requires a good deal of additional explanation.

<sup>16</sup> Private letter from Minister for Trade Treaties, July 1936.

<sup>17</sup> A similar prohibition affecting Australian wheat and flour was applied in Manchuria.

<sup>18</sup> Fabrics in this class constituted from 20 per cent to 25 per cent of Australia's cotton textile imports from Japan.

Neither the belief in the advantages of bilaterally balanced trade, nor the desire to stimulate domestic industry, which apparently inspired the Government's attempt to cut down imports from the United States, can have been motives for the tariff increases against Japan. Far from being a "bad customer," Japan was the second largest purchaser of Australian exports, and bilateral balancing of trade in this direction would have involved an increase rather than a decrease in purchases from Japan. Moreover Japanese imports did not compete seriously with any existing or potentially important Australian industry. The Minister for Trade Treaties, who was primarily responsible for the new policy, himself declared that "the particular tariff items on which the duties were altered have no protective significance so far as Australian secondary industries are concerned. The duties on such types of cotton cloth as are manufactured in Australia were not altered."<sup>19</sup> It is clear therefore that the domestic advantage which the Government hoped to gain by restricting imports from Japan was indirect.

The argument used over and over again in support of the new policy toward Japan was that British goods must be protected against "unfair" Japanese competition in the Australian market if Australia was to improve or even retain her own position in the British market. Cotton piece goods constituted the largest single item among the United Kingdom's exports to Australia, and the Australian Government argued that if Japan's gains in the Australian textile market were allowed to go on unchecked Britain would eventually lose entirely the second most important outlet for her cotton goods. The price-cutting indulged in by Japanese textile manufacturers was interpreted as an indication of Japan's intention to oust British textiles completely from the Australian market. Devaluation of the Japanese currency, it was said, had not only given Japan an unfair advantage over Britain, but had in effect "almost cut the duties on Japanese goods in half" which, said Sir Henry Gullett, "had the same effect on the amount of duty payable as if the Australian Government had abolished the British Preferential rate."<sup>20</sup> The revised duties were designed, not to exclude Japanese textiles from the Australian market, but simply to restore the effective preference required under the Ottawa agreement and give

<sup>19</sup> Private letter from Minister for Trade Treaties, July 1936.

<sup>20</sup> *Ibid.*

British textiles a fair chance. Such action was necessary, the Government argued, if Australia was to retain the British market for her own primary products. Valuable as was the Japanese market for Australian goods, the British market was even more valuable. It was pointed out that in 1934-5 the United Kingdom took 56.25 per cent of Australian exports as against 10.75 per cent taken by Japan. Moreover while Japan's purchases from Australia consisted mainly of wheat and wool, Great Britain took more of each of these commodities than Japan and a wide range of other important Australian products as well. "Britain is the one market where mutton, beef, lamb, butter, sugar, wine, dried fruits and the like may be sold on a great scale, and is virtually the only market for many other important export lines. Australia could not reasonably hammer at the United Kingdom for an expanding share of their import market if it was not prepared to concede effective preferences to the United Kingdom on goods of vital interest to her."<sup>21</sup>

This basic argument was supported by a number of others advanced from time to time as the dispute progressed. The charge that Japanese competition had been unfair was elaborated by the Prime Minister, who declared that "during the past two or three years . . . Japanese manufacturers and exporters . . . have reduced their prices to levels against which no European country or the United States of America could compete except upon a diminishing and insignificant basis in this Australian market. . . ." In making these reductions, he said, Japan had "the advantage against all other countries of much lower wages, longer working hours, cheaper raw materials, a substantial advantage by currency depreciation, and lower freight rates because of her relative proximity to the Commonwealth." Justification of the charges of unfairness, and precedents for the action taken by Australia were found in the fact that "nation after nation has been forced into restrictive action against Japan by this otherwise irresistible deluge of goods, against which no Western standards of wages, hours and living could survive."<sup>22</sup> Although the idea that Japanese imports constituted a menace to Australian industry and to the Australian standard of living was not stressed in the beginning, it

<sup>21</sup> Official memorandum: "Trade Diversion Policy with special reference to its application to Japan" (mimeographed). See also Hawker, *op. cit.*

<sup>22</sup> National Broadcast, June 25, 1936.

was soon brought to the fore as this statement shows, and Sir Henry Gullett later contended that "the challenge in textiles was but the fore-runner of an inevitable general challenge over the whole Australian industrial field."<sup>23</sup>

Moreover in launching its new policy the Government did not ignore the likelihood of Japanese retaliation through the curtailment of wool purchases from Australia, but took the view that such curtailment, when offset by increased buying in South Africa and New Zealand, would simply lead to increased British and European purchases in Australia, since wool production in these other countries was comparatively limited. In other words, the Australian Government felt that the country could stand up to a Japanese boycott of Australian wool without undue sacrifice of its vitally important wool export trade, and this being so they believed that their bargaining position *vis-à-vis* Japan was quite strong. It should be noted, however, that this argument rested on the assumption that Japan would fully maintain her purchases of fine merino wool—an assumption which events proved to be ill-founded.

Though the Government invariably stressed economic arguments in support of its trade diversion policy, there can be little doubt that political considerations carried a great deal of weight in its formation. The whole experiment was political in the sense that one of its objects was undoubtedly to force Japan into a bilateral trade agreement by tariff action, ordinary methods of consultation having failed.<sup>24</sup> Moreover it is clear from numerous official statements that the Government was hoping to improve its bargaining position in its dealings with Britain. The margin of preference allowed to Australian produce in the United Kingdom market under the terms of the Ottawa agreement was regarded as inadequate, British trade treaties with Argentina and Denmark, Australia's principal competitors, were due for revision and there was a prospect that a generous gesture in favor of the British exporter might dispose the British Government to take reciprocal action in Australia's favor. Such a gesture might at least prevent retaliation by Britain for the loss of an important part of the Australian market. "What seems to have lain behind the trade diversion policy," an English interpreter

<sup>23</sup> Sir Henry Gullett, "The Cheap Labor Import Problem," *Austral-Asiatic Bulletin*, August-September 1937, p. 14.

<sup>24</sup> N. F. Hall, *op. cit.*

had said, "was the numb fear in official quarters in Australia that if they allowed Japan to rout Lancashire in the sale of textiles, then they would be subjected by the Government of the United Kingdom to a further substantial contraction of the British market for all types of agricultural produce."<sup>25</sup>

The statements made by the Minister for Trade Treaties when the policy was first announced that it would facilitate the renewal of immigration, and make "a significant indirect contribution to defence," pointed to more deep-seated political considerations even than those involved in bargaining with Great Britain and Japan over trade agreements. Behind all Australian attempts to stimulate immigration and increase population lies ultimately the uneasy feeling that Australia must "populate or perish;" this is one of the ways in which the latent but ever-present fear of an overflow of "Asia's millions" into Australia's "vast open spaces" finds expression. There can be little doubt that such fear conditioned the Government's trade policy toward Japan. The mention of "a significant indirect contribution to defence" was another index of fear—the fear of a military "menace" from Japan which like the fear of "Asia's millions" and the fear of "cheap Japanese goods" dates back to the 'nineties and beyond. The immediate stimuli which evoked both fears at this time were the successive revelations of the strength of militarism in Japan and the progressive deterioration of the collective security system.

The influence of these fears upon the formation of Australian trade policy in 1936 must not be overestimated, but on the other hand it should not be overlooked. They form part of the emotional background in the official as well as in the public mind, and the allusions to immigration and defense in the Minister's speech suggest that they were not so far in the background in May 1936 as some might suppose. One point however must be made clear in this connection. It is not suggested that the restrictions imposed upon imports from Japan were in any sense the result of a recoil from close commercial association with a potential enemy—on the contrary the ultimate object of their imposition was the conclusion of an agreement which would ensure to Australia the continuance of a highly profitable trade with Japan. It is suggested, however, that growing concern for Australia's security intensified the desire on the one hand to

<sup>25</sup> *Ibid.*

maintain a high degree of co-operation with Britain in the commercial, as in other fields, and on the other to strengthen and extend the Australian industrial structure and so build up her powers of resistance against possible foreign attack. The Australian newspapers, which with few exceptions supported the trade diversion policy, expressed this point of view more explicitly than any member of the Government. "The Melbourne *Herald* acclaimed the tariff as extending two long-established principles of Australian national policy—protection for home industries and imperial preference."<sup>26</sup> The *Argus* described the trade diversion policy as "a step as practical and definite as any yet taken to cement by positive means the relationship of Empire. There is something more than a right to do this; there is an obligation to which all current international conditions, including trade relations, lend their strongest sanction."<sup>27</sup>

The principal economic and political considerations which seem to have lain behind the trade diversion policy have now been analyzed in some detail, but the question still remains why the Australian Government took such abrupt and drastic action in May 1936 to achieve ends which logically should have seemed just as desirable before that time. Of course it has already been pointed out that the breach with Japan was not in fact as sudden as it seemed to the Australian public. It may be argued that sudden and drastic action was necessary to break the deadlock reached after prolonged negotiations, and that the Government had merely changed its method of action rather than the object of its policy. Nevertheless the change, whether in the method or the substance of policy, was so rapid as to require some further explanation.

The most likely explanation would seem to lie in the strong pressure brought to bear upon the Government by those interests which were opposed for various reasons to the continued growth of the import trade with Japan. The conflict of opinion regarding this growth was discussed in the previous chapter, and the alignment of interests indicated. Groups favorable to the development of trade with Japan on a reciprocal basis included independent observers who saw in it the natural and desirable outcome of the complementary economic needs of the two countries concerned, those who regarded cheap Japanese goods

<sup>26</sup> Pearson, *op. cit.* p. 40.

<sup>27</sup> *Ibid.*

as a boon to Australian consumers, and most important of all, those primary producers who were profiting most from the expansion of exports to Japan. In the opposite camp were those fearful of Japanese penetration in any form, a large section of the commercial and industrial communities, and, above all, the British textile interests, which had suffered most from the Japanese onslaught on the Australian market. The public was rather apathetic but inclined as always to believe in the reality of a Japanese "menace."

It was not surprising that a Government which had been aided so substantially in the solution of serious financial problems by an expansion of exports to Japan, should have been inclined at first to accept the view of the economists, and share the jubilation of the wool-growers, and thus to adopt a policy of fostering the Eastern trade and cultivating Eastern friendship. But as time passed, financial stability and a measure of prosperity were achieved, large Japanese purchases of wool and other produce became a regular and apparently permanent feature of the export trade, and the favorable balance of payments with the outside world which those purchases helped to make possible was soon accepted as the normal thing. In short, Australia settled down after the depression to a new economic routine in which a substantial export trade with Japan was an extremely important but no longer novel feature. But the import trade with Japan then began to develop with a rapidity which to many people was in itself alarming. Between 1932 and 1935 there occurred a dramatic shift in the Australian textile market away from Britain and toward Japan. Here was a novelty which the Australian Government was not given a chance to forget. A large section of the press, Chambers of Commerce, the powerful Association of British Manufacturers, and a host of other voices great and small drew attention to the "menace" threatening Australia and Britain, and clamored for action. The clamor was loud enough, and the influence of those who made it great enough, to inspire the demand for the limitation by Japan of her textile exports to Australia, which brought about a deadlock in the negotiations for a trade agreement. Neither the wool-growers nor the economists who favored the conclusion of an agreement could prevail against such pressure, and the negotiations came to an end. But the pressure continued and the next step was "trade diversion." The last, and perhaps the most important thrust in

the direction of drastic tariff action to limit Japanese imports was given by a Manchester Trade Delegation, led by Sir Ernest Thompson, which came to Australia in March 1936 to plead the cause of the Lancashire textile interests, and seek a larger measure of protection for them against Japanese competition in the Australian market.

It should be noted particularly that the Manchester Mission was quite unofficial, and whatever pressure may have been brought to bear by Sir Ernest Thompson or the Association of British Manufacturers upon the Australian Government to prevent further inroads by Japan into the textile market, there is no evidence of any official British pressure upon the Australian Government to act on Lancashire's behalf. Apparently the opinion was widely held in Japan, after the trade dispute had begun, that the Australian restrictions upon Japanese imports were imposed at the behest of Great Britain and represented an extension to a Dominion of the policy of excluding Japanese goods from the British colonies. But in point of fact the Australian action seems to have been taken independently of the United Kingdom Government. Indeed Mr. C. A. S. Hawker, a supporter of the Government in the Federal Parliament and a former minister who was in close touch with members of the Cabinet at the time, but who was also a critic of the trade diversion policy, has deplored their failure to consult the British Government before taking such drastic action. "A well-intentioned effort to safeguard the British Government from incurring any odium from a possible dispute led the Australian Government to refrain from consulting it in advance. This was a double misfortune because it not only deprived our government of the magnificent expert advice and diplomatic service of the British, but in itself seemed so uncircumstantial that so far from winning credence in Japan it was widely believed to be a rather crude mis-statement intended to cover supposed dictation by the British Government."<sup>28</sup>

The statement just quoted is significant not only as evidence of the fact that the trade diversion policy was launched without even advice, let alone pressure from the British Government, but also because it draws attention to the inadequacy of the advice and information upon which those responsible for the policy acted. Mr. Hawker went on to point out, and he spoke

<sup>28</sup> *Austral-Asiatic Bulletin*, April 1937, Vol. I, No. 1, p. 7.

from personal experience, that "any Australian Minister who has to negotiate upon important matters with foreign governments must face his task with the minimum of useful information and helpful backing. . . ."<sup>29</sup> In the launching of the trade diversion policy, even the more obvious sources of advice and information were ignored. Even if there were good reason for not drawing upon the resources of British diplomacy it is difficult to understand why the Australian Tariff Board, a body of experts constituted especially to advise the Government on tariff changes, was not consulted. The Minister for Trade Treaties had himself indicated in 1932 that "the Government's policy is definitely against changes in protective tariff items without reference to and consideration by the Tariff Board,"<sup>30</sup> but when the Government was questioned on its failure to consult the Board regarding the drastic tariff changes introduced in May 1936, the only explanation given was that this was "a policy of trade diversion" and as such fell beyond the scope of the Board's operations.<sup>31</sup> This explanation can only be regarded as a further indication that the objects of the trade diversion policy were primarily political, and the critics of the policy were not slow to point this out. Professor Giblin remarked that "The government appears to have exposed the whole structure of our tariff policy to the vagaries of political expediency, and the log-rolling of interested parties."<sup>32</sup>

While the new policy toward Japan received the support of most Australian newspapers, and probably of a majority of the public, it evoked strong criticism from those primary producers who saw their interest in the Eastern market threatened, and from those economists and other independent observers who saw in it an unnecessary and perhaps dangerous political interference with a healthy commercial relationship between Australia and Japan. Self-interest obviously colored the attitude of the wool and wheat growers, who saw that the retaliation invited by trade diversion would reduce the sales of their prod-

<sup>29</sup> *Ibid.*

<sup>30</sup> Quoted in *Economic Record*, December 1936, Vol. XII, No. 23, p. 277.

<sup>31</sup> *Round Table*, December 1936, No. 105, p. 211.

<sup>32</sup> L. F. Giblin, *Some Economic Effects of the Australian Tariff*, Joseph Fisher Lecture in Commerce, University of Adelaide, 1936. This lecture has been printed as a pamphlet in its entirety and extracts relating to the trade diversion policy are given in Copland and Janes, *op. cit.*, p. 299, *et seq.*

uce.<sup>33</sup> Nevertheless they stated their case extremely well and their political influence, exerted through the Country Party wing of the coalition Government, was very strong and certainly helps to account for the eventual abandonment of the trade diversion policy. The criticisms of more independent observers are especially worthy of careful examination both because they exercised a considerable influence on public opinion and because they drew attention to some important considerations affecting Australia's relations with Japan which the Government apparently left out of account.

The Government's main contention regarding the relative importance of the English market and the imperative need for protecting it from Japanese competition was challenged on various grounds. So far from Britain offering "a great and irreplaceable export market," the critics argued, the long-term trend was for the British market for Australian goods to decline, and this decline must continue as the British population declined.<sup>34</sup> Even admitting the value of the British market to Australia, there was no ground for the assumption that the British Government would accord any less favorable treatment to Australian produce in the future than it had done in the past. The only threats of retaliation had come from Lancashire, and even the threatened boycott of Australian goods in Lancashire would be negligible in its effect. The losses that Lancashire had suffered in the Australian market, said the critics, were due to a large extent to the fact that the Manchester mills were over-capitalized and fitted with obsolete machinery. Why should Australia cease to buy cheap cotton textiles from Japan in order to support such a structure, asked one critic;<sup>35</sup> "I would be surprised to learn that Lancashire no longer believed in buying its cotton where it was cheapest."<sup>36</sup> The conclusions of Mr. G. E. Hubbard's *Eastern Industrialization and its Effect on the West* were cited as a counter to allegations that Japan's progress in the sale of textiles was primarily due to cheap labor and bad working conditions. As for currency depreciation, Australia's own devaluation had helped her to capture the Eastern wheat

<sup>33</sup> For criticisms of the trade diversion policy advanced by the wool growers see Copland and Janes, p. 290, *et seq.*

<sup>34</sup> H. Burton, *Austral-Asiatic Bulletin*, October-November 1936, Vol. 1, No. 4, p. 22.

<sup>35</sup> Grattan, *loc. cit.*, p. 690.

<sup>36</sup> Burton, *loc. cit.*, p. 22.

market. Other critics denied that Japanese textiles would have displaced the English product completely from the Australian market; "there was evidence, before action was taken by the Australian Government, that the boom in cheap rayon goods was about to burst,"<sup>37</sup> and Britain still provided more than half Australia's requirements in cotton piece goods. Moreover a rise in the price of textiles such as must result from the new duties would have an adverse effect upon Australian employment, while "obviously cheap imports raise, and do not lower the living standard of consumers in Australia. As far as factory employees are concerned the importation of low-priced Japanese textiles will not put any of them out of jobs, for there are no local factories with which such imports compete. Australian factory employees must benefit from cheap textiles—for the lower the price of the goods they use the greater the real value of their wages; and the purchasing power released by reason of their being able to buy the textiles they want at lower prices must help to provide additional jobs for Australian and other employees."<sup>38</sup> This being the case there was little ground for the Government's contention that Australia must impose further restrictions upon imports from Japan and other countries in order to safeguard British and Australian commercial interests. British interests were already adequately protected; Australian interests were not even in danger.

The most serious criticisms, however, were those based on the contention that the trade diversion policy was likely to deprive Australia of the valuable Japanese market for her wool. The Government could not expect Japan to continue her heavy purchases of wool if Australia was going to curtail her imports of Japanese textiles, particularly when the balance of trade was already so heavily in Australia's favor. Crude bilateralism was of course a poor basis upon which to determine any country's trade policy, but as Dr. E. R. Walker pointed out long before the trade diversion policy was announced, "Australians have themselves so often referred to their trade with America as unprofitable because imports exceed exports, that we are now left with no logical answer to other countries which claim that their trade with us is unprofitable to them because our exports exceed our

<sup>37</sup> R. D. Westmore, *Australian Quarterly*, March 1937, Vol. IX, No. 1, p. 96.

<sup>38</sup> Norman Cowper, quoted by C. H. Grattan, *loc. cit.*, p. 690.

imports."<sup>39</sup> The Government was charged with failing to appreciate either the importance of the Japanese market to Australia or the real reasons why Japan was pressing her goods in the Australian market. "The quantities of wool, wheat and minerals which Japan bought in Australia had never been more than part paid for by direct exports to Australia. Australian materials were so important to the Japanese that they used credits derived from exports to other countries in order to purchase them. It was a case of triangular trade. Australians saw a very satisfactory export of wool, wheat, tallow, minerals, etc., along one side of the triangle and did not concern themselves as to how the Japanese were getting along on the other sides, from which so much of the payments were drawn. Actually the Japanese were meeting with constant difficulties. Some dozens of countries were imposing trade restrictions against their goods. Wherever the Japanese had a favorable trade balance they found it particularly vulnerable to hostile quotas. This painful experience and the reasonable logic of the position drove them to make good any set-backs by a corresponding pressure of exports where, as in the case of Australia, a favorable trade balance of the other country seemed a hostage of welcome, or failing a welcome, placed the thick end of the bargaining stick in Japanese hands."<sup>40</sup> The Australian Government had not only failed to appreciate or make allowance for Japan's difficulties, but was now actually intensifying them by shutting one more door against Japanese exports, and doing it in such a way as to invite retaliation which must inevitably have a serious effect upon Australia's own vitally important export trade.

Such were some of the comments on the Government's economic justification of the trade diversion policy. On the political side the policy was even more vigorously attacked. In many quarters the effort to adjust the course of trade by political action was in itself regarded as bad, and the technique of adjustment chosen by the Australian Government was felt to be crude and unnecessarily provocative. More serious still was the fact that provocation had been offered to a power which was not only Australia's second best customer but also her most powerful, and potentially most dangerous, neighbor. A mutually profitable trade development had been contributing substantially to

<sup>39</sup> I. Clunies Ross (ed.), *Australia and the Far East*, p. 48.

<sup>40</sup> Hawker, *loc. cit.*, p. 7.

the creation of a more friendly and trustful political relationship between Australia and Japan, but now the old ill-feeling engendered by Australia's exclusion of Japanese immigrants was to be revived by an attempt to exclude Japanese goods as well. Even groups traditionally to the forefront in support of a "White Australia" policy denounced trade diversion on political grounds. The *Labor Daily* spoke of "the risk of endangering Australia's national security by precipitating a trade war in the Pacific," and declared that "economic conflict is a great risk at a time when the world is preparing for war." Labor at this stage was apparently more suspicious of British than of Japanese "imperialism," and shared the Japanese conviction that the trade diversion policy had been dictated from England; "the reckless action of the Lyons Government in declaring a trade war on the two most powerful nations in the Pacific, Japan and the United States, follows so closely upon the visits of Lord Nuffield, the British motor-car manufacturer, and the Manchester Trade Delegation, that it would appear as if Australia's future has been jeopardized in order to meet the demands of the imperialists that the Australian market should become a closed preserve for British manufacturers"—"it is assuredly high priced imperialism."<sup>41</sup> Other critics, however, saw danger for Britain as well as for Australia. Arguments for the trade diversion policy based on defense needs "are disturbing but not altogether convincing," said the *Round Table*. "To provoke the antagonism of Japan is not, obviously at any rate, the best service that Australia can render Great Britain and the rest of the British Commonwealth."<sup>42</sup> Taking a still broader view, another critic pointed out that "by refusing to trade with foreign countries in order to strengthen the Empire we are partly responsible for their policy of aggression."<sup>43</sup>

#### *Significance of Trade Diversion Controversy*

The principal arguments advanced in Australia for and against the trade diversion policy, insofar as it applied to Japan, have now been reviewed in some detail. The survey reveals not only the breadth and importance of the issues involved in the

<sup>41</sup> *Labor Daily*, May 23 and May 25, quoted by Pearson, *op. cit.*, p. 41. For other labor comment see Copland and Janes, *op. cit.*, pp. 317-24.

<sup>42</sup> *Round Table*, December 1936, No. 105, p. 211.

<sup>43</sup> Burton, *loc. cit.*, p. 22.

policy, but also the diversity of the views current in Australia as to the best basis for Australian policy with respect to Japan, the most important of her Far Eastern neighbors. The controversy revealed the persistence of the conflicting hopes and fears that have influenced public opinion and official policy on this subject ever since the 'nineties, when Australians first realized that Japan had risen to a position of political and commercial importance which must have a vital effect upon Australia's own development. It revealed too the extent to which political considerations influenced both the Government's handling of what seemed to be primarily an economic problem and the public reaction to the solution adopted.

Only one further point need be mentioned here regarding the trade diversion controversy in Australia, and it is significant in view of the Government's attitude in later controversies on matters of foreign policy. The Government showed itself, during the course of the dispute, extraordinarily sensitive to adverse criticism of its policy, and inclined to stifle such criticism by every means within its power. As far as possible, public discussion of the matter was avoided by the authorities. The Australian public was kept completely in the dark regarding the course of the negotiations for a trade agreement with Japan and was given no warning either of their breakdown or of the drastic action which the Government announced on May 22. Moreover this announcement was made only a few hours before Parliament adjourned for its long winter recess and no opportunity was given for the discussion of the new measures. Criticism was very vigorous, in the press and elsewhere, from the time of the announcement until the latter part of June, when the Prime Minister took the then unprecedented course of addressing the nation over a general hook-up of radio stations, in justification of the Government's policy.<sup>44</sup> The wool growers, who had been most vocal in their condemnation of the new tariff measures, were asked to refrain from hostile criticism pending discussions with the Japanese authorities, and thereafter preserved a discreet silence. The conservative press also respected the Government's wish for silence. Their attitude has been well summarized by A. G. Pearson whose comment on the subject is also worth quoting: "During the controversy which followed the introduction of the tariff, the non-Labor press at first published

<sup>44</sup> June 25, 1936.

in their news columns both criticism and praise of the tariff. Criticism by the Graziers' Association and the Consul-General for Japan was published, although Professor Giblin's strong attack on the Government's policy was omitted from *The Age* and given only a brief report in *The Argus*. Criticism of the Government was, however, suddenly stopped when the Cabinet appealed for silence because it was jeopardizing negotiations with Japan. Statements by the Chairman and Vice-Chairman of the Australian Wool-growers' Council at a deputation to the Prime Minister on July 17, 1936, were refused publication in the daily press, although they appeared in the *Countryman*. The implications of this demand by the Cabinet for secrecy in conducting delicate negotiations are extremely interesting, viewed in the light of democratic philosophy. For how far is the demand for secrecy in policy consistent with responsible government?"<sup>45</sup> Another critic accused the government of invoking "the arts of propaganda so skilfully used in the countries which have deserted democracy in their devotion to extreme nationalist policies. . . . Had it been the practice to debate foreign affairs freely in Parliament with a candid examination of national aims, it would have been impossible for the Minister for Trade Treaties suddenly to plunge the country into major controversies without exhausting the normal diplomatic methods of handling the problems."<sup>46</sup>

### *Japanese Reactions to Trade Diversion Policy*

The hostile reaction to the trade diversion policy in Australia was strong enough to evoke a Government appeal for silence, and probably to influence the Government's eventual abandonment of the trade diversion policy, but infinitely more important was the hostile reaction in Japan.<sup>47</sup> The retaliatory tariff and licensing measures adopted by the Japanese Government on June 25, under the Law Concerning Adjustment of Trade and Safeguarding of Commerce, have already been mentioned, but public and private measures adopted in Japan to counteract the effect of the new Australian policy went far beyond the adjustment of the tariff.

<sup>45</sup> Pearson, *op. cit.*, p. 42.

<sup>46</sup> D. B. Copland in *Austral-Asiatic Bulletin*, April 1937, Vol. I, No. 1, p. 21.

<sup>47</sup> For Japanese comment on the trade diversion policy see Copland and Janes, *op. cit.*, pp. 266-9, 275, 278-84.

Retaliation was not easy since Australia was the third most important source of Japan's raw materials. The most powerful weapon to Japan's hand in fighting the trade war was that of boycott against Australian wool. Japan's share of Australia's wool exports as a rule constituted from 20 per cent to 25 per cent of the total. The weapon was two-edged, however, since Japan had become dependent upon Australia for the bulk of her raw wool imports—Australia providing from 85 per cent to 95 per cent of Japan's total requirements. This latter fact had accounted to a large extent for the Australian Government's confident expectation of victory in the trade war. The Australian confidence and the Japanese difficulty were the greater since Japanese wool manufacturing machinery is of the Continental type, especially designed to handle the fine merino wool which Australia alone produces in very large quantities. But the Australian Government soon found that it had underestimated the Japanese ability to free itself from dependence upon Australian wool. Japan's position was eased at the outset by the fact that the bulk of the raw wool required for the current year had been purchased before the outbreak of the dispute and possibly in anticipation of it. The stocks that she had on hand at the end of May were sufficient to make possible at least a short-term boycott of Australian wool, and allow adjustments to be made to provide for future needs from other sources.

A second measure adopted in the effort temporarily to eliminate wool purchases from Australia was a turn to alternative sources of supply. The campaign to improve the quality of wool from Manchukuo's Mongolian sheep was intensified but progress could only come very slowly at best and there was no immediate prospect of replacing Australian fine wool with wool from Manchukuo. The only alternative sources immediately available were South Africa, New Zealand, and certain South American countries. Of these only South Africa could supply fine merino wool, and in 1935-6 only one per cent of Japan's raw wool had been drawn from this source. In the same year New Zealand had provided three per cent of Japan's wool requirements and South American countries a negligible proportion. The *Oriental Economist* estimated that South African wool was 17 per cent more expensive than wool of comparable quality from Australia, and South American wool would be 19 per

cent more expensive.<sup>48</sup> The wool available from New Zealand and South America would only be of the coarser variety. On the other hand, South Africa and the wool-producing South American countries were both "good customer" countries, contrasting in this respect with Australia with which the balance of trade was heavily adverse to Japan, and increased purchases from them could be expected to result in increased exports thither. Again the Government was prepared to assist the woollen industry to bear the added cost of buying from these countries by arranging a levy of one sen per square yard on textile exports, part of which was used to indemnify losses suffered through the curtailment of wool imports from Australia.<sup>49</sup> Purchases from all these countries increased during the dispute but insufficiently to compensate fully for the cessation of Australian supplies.

A third recourse for Japan in the trade war was to turn to staple fiber as a substitute for Australian wool. The history of staple fiber in Japan dates back to 1923, but the early development was very slow. Commercial production was begun in 1929 but even in 1934 the industry had scarcely advanced beyond the experimental stage.<sup>50</sup> The annual production capacity attained in that year was about five million pounds, but restrictions imposed by various countries on the admission of Japanese rayon caused increased attention to be given to staple fiber and by the beginning of 1936 production capacity had increased to 25 million pounds per annum. Even though the industry was young it was faced with a problem of overproduction which was solved when the trade dispute with Australia and restrictions on raw wool imports created a new demand for fiber as a substitute.<sup>51</sup> The result was an increase in output from 13,625,000 pounds in 1935 to 45,850,000 in 1936. So valuable did staple fiber prove as a substitute for raw wool that the industry assumed national importance as a means of reducing dependence on foreign sources of supply, and early in May 1937 the Finance Ministry exempted textiles made wholly of staple fiber from the textile

<sup>48</sup> *Oriental Economist*, July 1936, Vol. III, No. 7, pp. 420-1.

<sup>49</sup> *Oriental Economist*, August 1936, Vol. III, No. 8, p. 486.

<sup>50</sup> Mitsubishi *Monthly Circular*, August 1936, p. 16 and December 1936, p. 15.

<sup>51</sup> *Far Eastern Survey*, May 6, 1936, Vol. V, p. 103.

excise tax.<sup>52</sup> The army also helped by using staple fiber fabrics. "Mixing cotton with staple fiber and with Japanese and Manchurian wool will save Japan from using Australian wool," announced an army spokesman: "The army will cooperate . . . to encourage the use of cloth made from these materials."<sup>53</sup> The staple fiber industry not only strengthened Japan's position in the trade war with Australia, but itself received an invaluable stimulus as a result of retaliatory action by Japan against the Australian trade diversion policy.

A fourth means suggested to reduce consumption of Australian wool was to restrict the output of manufactured woolens. Inasmuch as the export trade in woolen textiles had become increasingly important in the years immediately preceding the dispute, and in view of the effect of such restrictions upon employment, this suggestion was not viewed with much enthusiasm, and in fact no actual restrictions were imposed on the industry from without. It is worth noticing, however, that a production cut had been planned by the Japan Woolen Industry Association even before the outbreak of the trade dispute with Australia; the voluntary limitation of output was to begin in July and was expected to result in a reduction in raw wool consumption by about 235,000 bales per annum.<sup>54</sup>

#### *Effects of Dispute on Australian-Japanese Trade*

As a result of these measures the purchase of wool by Japan from Australia virtually ceased during the course of the dispute which lasted until the close of 1936. Australia was fortunate in that war fears caused heavy European buying, so that prices were actually higher during the months of the dispute than those of the previous year despite the absence of Japanese buyers from the Australian auctions. How much higher they might have been had the Japanese buyers been present it is impossible to say. It was sufficient for the Government, that despite the transfer of Japanese patronage to South Africa, South America and New Zealand, Australia was able to dispose during the first half of the season of a proportion of her clip which could be regarded as normal. While the dispute was still in progress the Australian Government was thus able to claim that the dire

<sup>52</sup> *Ibid.*, January 19, 1938, Vol. VII, p. 24.

<sup>53</sup> *Ibid.*, July 29, 1936, Vol. V, p. 172.

<sup>54</sup> *Oriental Economist*, July 1936, Vol. III, No. 7, p. 421.

prognostications of its critics about the serious effects of a Japanese boycott of Australian wool were unfounded. But if the boycott did not immediately jeopardize the prosperity of the wool-growers, they were at least given conclusive evidence of the fact that Australian wool was not indispensable to Japan, and that a market upon which they had come to depend in less prosperous times was by no means permanently assured. The ground lost between May and December was not regained in the second half of the wool year, and Japan's purchases of wool for the whole year 1936-7 were only one-third in volume and one-half in value of those of 1935-6. In Japan the boycott was not carried out without hardship. The price of woolen goods rose, and subsidies to the woolen industry paid from the levy on textile exports were insufficient to compensate for the increased cost of raw material from more distant sources than Australia.<sup>55</sup> But although the manufacturers of woolen goods grumbled, they learned during the trade war with Australia a lesson in adjustment which was to prove useful later when armed conflict with China made necessary even more drastic restrictions on raw material imports.

But in order to appreciate the full effect of the dispute upon Australia's trade with Japan, it is necessary to consider briefly the position of other commodities affected and to examine the marked change in the volume and balance of the trade which became apparent at the end of the Australian statistical year in June 1937. The importation of Australian wheat and flour was banned by Japan in June 1936 along with wool, and the sales of both wheat and flour in 1936-7 declined greatly both in quantity and value, though a rise in the price of wheat offset to some extent the decrease in the volume of sales. The restrictions on imports of Australian wheat and flour caused no particular embarrassment in Japan, since 1935 had seen the achievement of virtual self-sufficiency in these commodities for Japan proper.<sup>56</sup> The wheat still imported was mainly for milling before re-export as flour to Manchukuo and China, and supplies were readily obtainable from other sources. For Australia the wheat and flour boycott was more serious since it meant the temporary loss of the dominant position in the Japanese market which had been gained during the depression years when the depreciation

<sup>55</sup> *Oriental Economist*, December 1936, Vol. III, No. 12.

<sup>56</sup> Stanford Food Research Institute, *Wheat Studies*, Vol. XII, No. 3, Nov. 1933.

of the Australian currency had given Australia a price advantage over the produce of Canada and the United States. Since the position of wheat in the markets of the world was much less happy than that of wool, the loss even of the relatively small Japanese market was unfortunate for the Australian wheat grower. Japanese purchases of Australian meat, tallow, dairy produce, iron ore and casein also declined in 1936-7 as a result of Japanese tariff action in the trade war.<sup>57</sup>

The decline in the total value of Australia's exports to Japan during 1936-7 reveals the extent of the setback which Australia suffered. Valued at £A17.7 million in 1935 Australian exports to Japan amounted in the year of the trade dispute to only £A9.7 million. This decline was much greater than the decline in Australian imports from Japan which only dropped from £A6.3 million to £A5.0 million. Perhaps even more significant, in view of Australia's need for an annual export surplus in her trade with the world, is the fact that Australia's favorable trade balance with Japan fell from £9.1 million sterling in 1935-6 to £3.7 million in the following year. On the basis of these figures alone Australia would seem to have had much the worst of the struggle with Japan, even though Japan did not come off scot-free.

It became apparent to both parties very early in the dispute that each stood to lose heavily if agreements were not soon reached, and so negotiations for a "peace" were begun as early as July 1936. It was not until December, however, that terms were agreed upon. On the day after Christmas, notes were exchanged between the Minister for Trade Treaties and the Japanese Consul-General indicating concessions which their respective Governments would make in order to put an end to the trade war.<sup>58</sup> Each government indicated its intention of removing, as from January 1, 1937, the special prohibitions and license requirements imposed since May 1936 upon goods from the other's country. Japan canceled her 50 per cent ad valorem surtax on Australian produce, thus restoring the tariff so far as Australia was concerned to the "pre-war" level. The Australian duties on artificial silk and cotton piece goods were substantially reduced, and Japanese textiles were exempted from primage.

<sup>57</sup> Commonwealth of Australia, Dept. of Commerce, *Report on Australia's Trade with Eastern Countries during 1936-37*, pp. 9, 15.

<sup>58</sup> For the text of these notes see Copland and Janes, *op. cit.*, pp. 286-9.

These tariff adjustments represented roughly a return to normal, but other provisions of the agreement set limits to the exchange of wool and textiles which in effect rendered impossible any expansion of the trade in those key commodities beyond the level of 1935 or even up to that level. During the eighteen-month period for which the agreement was to be effective the Australian Government agreed to admit not more than 76,875,000 square yards of Japanese cotton piece goods, other than calico for bag-making which was already freely admissible, and a similar quantity of artificial silk. Over the same period Japan agreed to permit the import of not less than 800,000 bales of wool.

The limit thus set to Australian imports of Japanese textiles indicated an attempt to restrict future imports approximately to the 1934 level, which was substantially lower than that attained in 1935. The annual rate at which Australian wool might now enter Japan was limited to 533,000 bales, which exceeded the 1934 figure of 514,000 bales but fell short of the 750,000 bales purchased in 1935. Since wool and textiles were the chief items in the trade between Australia and Japan, the agreement clearly put an end to the rapid commercial growth which had been so advantageous to both countries during and after the depression, and which many people had hoped would become increasingly advantageous as Japanese industry developed and the Japanese standard of living rose.

The only interested party which clearly gained as a result of the Australian-Japanese trade dispute was Lancashire, for whom a section of the Australian textile market was now, in effect, reserved. It is difficult to see any long-term gain for Australia among the results of the dispute. Her expensive gesture in Lancashire's favor evoked no reciprocal gesture from Britain, and apart from immediate trading losses, she had eliminated for a long period the hope of increasing her share of an important and previously expanding market for her staple exports. For Japan also the dispute and the agreement which ended it shut the door to any further expansion of what had promised to become quite an important market for her manufactured goods. The only sense in which Japan can be said to have gained from the dispute was that she had had a useful lesson in adjusting part of her economy to a drastic restriction of raw material supplies. The feasibility of at least the partial substitution of staple

fiber for wool had been clearly demonstrated, and the staple fiber industry had been set firmly on its feet, thus permanently reducing Japan's dependence on Australian raw material for her heavy textile industry. Another important phase of the lesson in adjustment, which was to prove valuable later, was the establishment of a system of production and export control in respect of artificial silk. As a direct result of the trade dispute with Australia, and at the behest of the Government, the Japan Federation of Export Silk and Rayon Textiles Associations instituted in August 1936 a comprehensive system of control which was designed for the immediate purpose of raising the levy required for the compensation of the woollen industry during curtailment of Australian supplies, and ultimately to build up a fund for adjusting unbalanced trade conditions and to exercise a price control "for all world-trading areas."<sup>59</sup> This was the first instance of a type of large-scale control which was soon to be extended to other industries and become an important feature of the Japanese economic system.

#### *Trade With Other Far Eastern Countries*

While the dispute with Japan and the changes which it caused were the most striking and important features in the development of Australia's Far Eastern trade during 1936-7, shifts in the trade with other Far Eastern countries were sufficiently important to warrant a brief review. In August 1936, Manchukuo applied to Australian wheat, flour and wool a licensing system and tariff increases similar to those applied by Japan a month earlier.<sup>60</sup> The trade war between Australia and Japan was the immediate stimulus behind this action, but it was also designed to protect domestic wheat and the flour milling industry which the Government was now seeking to expand. With the establishment of Japanese control the demand for imported flour, and to a much less extent for wheat, increased rapidly as a result of the curtailment of local crops owing to the disturbed state of the country and the removal of protective duties between 1932 and 1934. In supplying this demand Australia played a leading part for the same reasons which enabled her to capture the lion's share of the Japanese and Chinese markets. But the heavy exports of Australian flour to Manchukuo were not maintained.

<sup>59</sup> *Oriental Economist*, August 1936, Vol. III, No. 8, p. 486.

<sup>60</sup> *Japan-Manchukuo Yearbook*, 1938, p. 889.

Although they amounted to 240,181 short tons in 1934-5, making Manchukuo<sup>61</sup> the largest overseas purchaser of Australian flour, they dropped to less than half that amount in 1935-6. This fall would probably have continued in the following year even without the restrictions imposed in August 1936, since the Manchukuoan wheat crop was larger and there was increased competition from flour milled in Japan. As it was, these factors, together with the new restrictions, reduced exports of flour to Manchukuo to 93,051 tons. It is significant that although when the trade war ended Japan removed tariff restrictions on the import of Australian wheat, Manchukuo still kept the August licensing regulations in force, though she ceased to apply them in any discriminatory fashion against Australia.<sup>62</sup>

The purpose of retaining the system of licensing flour and wheat was clearly to protect domestic wheat growing and flour milling, with self-sufficiency in these commodities as the ultimate object. This protection led to a sharp increase of flour-milling capacity which far outstripped Manchurian wheat production. Although the consequent decline of the Manchukuoan market was quite a serious loss to Australian flour-millers, the trade was not old enough to make the process of adjustment to the change very difficult—the boom years had been helpful while they lasted, but now the bubble was pricked and there was an end to it. The sales of flour even in 1936-7 were not inconsiderable in value, but further diminution rather than expansion was to be expected.

Trends in the trade with China during the year 1936-7 were rather significant for a number of reasons, though the total volume of trade was very small in comparison with that between Australia and Japan, and actually smaller in 1936-7 than in the previous two years. As already noted, the most important Australian export to China for some years previously was wheat. During and after the depression Australia succeeded in capturing the major share of the market for foreign wheat in China, but that market has always been a fluctuating one, its size varying with the size of the domestic crop and the level of wheat prices. The volume of Australian wheat exports to China in

<sup>61</sup> Including Kwangtung Leased Territory.

<sup>62</sup> Australia, Department of Commerce, *Report on Australia's Trade with Eastern Countries, 1936-37*, p. 12.

1936-7, however, was particularly low although Australia still retained her position as China's chief foreign supplier. The reasons are to be found partly in the relatively high price of wheat in that year and partly in the fact that the local crop was heavier than usual. One other factor mentioned in a report of the Australian Department of Commerce as contributory to the sharp decline from 1934-5, when China took 13.7 million bushels, to 1936-7 when she took only 1.3 million bushels, was "the increased transport facilities which . . . as a result of governmental enterprise have permitted of greater utilization in China of the local crop."<sup>68</sup> This negative effect of improvements in China's communications is particularly interesting in view of the speculation of another Australian student of the Chinese market in 1935 that the effect of such improvements would probably be "favorable to the sales of most Australian produce . . . both as a consequence of the expansion of production and purchasing power in China which they will precede and produce, and as a consequence of their extension of the accessible market."<sup>69</sup> Probably the two views are not inconsistent—one is merely a longer view than the other—but both point to the important connection between the development of communications in China and her value as a market for Australian produce. This connection is indicated in more concrete fashion by the shipments of Australian hardwood to China for use as railway sleepers which for a number of years had formed one of the items in the trade. A Chinese authority declares that most of the railways in South China were built with Australian sleepers.<sup>70</sup> As in the case of wheat, the extent of Australia's share in the Chinese market for timber has depended to a large extent on price considerations, since this is a trade in which the United States, Canada, Siam, the U.S.S.R. and other countries have all had an interest. Though not as high as in 1934-5, exports of hardwood from Australia to China in 1936-7, amounting to more than 11 million superficial feet, were markedly higher than those of the previous year. There was every indication that the Australian timber industry in particular stood to benefit substantially from the extension of the Chinese railway system.

One other small but significant development in Australia's

<sup>68</sup> *Ibid.*, p. 7.

<sup>69</sup> H. D. Black in *Australia and the Far East*, I. Clunies Ross (ed.), p. 280.

<sup>70</sup> K. C. Lin, cited by H. D. Black, *loc. cit.*, p. 303.

trade with China during 1936-7 was the expansion of China's purchases of Australian wool. These amounted to only 69,000 pounds in 1935-6, valued at £A8,085, but in the following year they rose to 1,376,000 pounds valued at £A152,719. This rise was a direct result of a very rapid development of the woollen and worsted manufacturing industry in China, especially in the Shanghai district.<sup>68</sup> The trade was mainly in tops since most of the Chinese factories were equipped to deal with the raw material from that stage of process. Even with the sharp increase which occurred in 1936-7, Chinese purchases of Australian wool remained small but nevertheless the direct benefit to the Australian wool-grower of the development of woollen textile manufacturing in China was obvious and indicated the probable future advantage to Australia of this phase of Chinese industrialization.

The decline of imports from Japan, as a result of the trade dispute, together with a substantial expansion of imports from Netherlands India, helped the latter country to displace the former as the most important Far Eastern supplier of goods to Australia. The total value of imports from Netherlands India rose from £4.9 million sterling in 1935-6 to £6.2 million sterling in 1936-7. The 1936-7 figure was actually higher than that for imports from Japan in the year before the trade dispute, and made Netherlands India not only the most important Far Eastern source of Australian imports, but the third most important in the world. Petroleum products and tea constituted about three quarters of the import trade from Netherlands India, with kapok, rubber and various tropical products making up the other quarter. Australia's complete lack of domestic petroleum resources had already given Netherlands Indian oil an increasing importance in Australian eyes, both commercially and strategically. Since 1932 Netherlands India had to an increasing extent displaced the United States as Australia's principal source of supply of gasoline, kerosene and crude oil, providing 59.5 per cent of the crude oil and gasoline and 74.2 per cent of kerosene in 1936-7.

The total volume of Australian exports to Netherlands India had never been very large, and after reaching a peak of £2,122,722 sterling in 1929-30 fell to less than half that value in 1932-3. Two years later a slow recovery began and the figure for

<sup>68</sup> Department of Commerce, *op. cit.*, p. 14.

1936-7 was the highest since the depression, although at £A1, 395,183 it was still much lower than that for 1929-30. However, as Mr. J. G. Crawford pointed out in 1935, the aggregate trade figures fail to indicate adequately the importance of the Netherlands Indian market to Australia; even at its lowest in 1933 it ranked fourth among overseas outlets for Australian food-stuffs and "in view of the fact that English and Continental restrictions apply mainly to foodstuffs . . . successful exploitation of the Netherlands Indian market would offer some compensation for failure to expand or actual contraction elsewhere."<sup>77</sup> The most important of the foodstuffs exported to Netherlands India have been flour, butter, meat, and dried and canned fruits, with flour predominating. But in 1936-7 exports of flour, meat, and more especially butter, all showed a decline in quantity, although in the case of flour improved prices led to an increase in value. The decline in butter exports indicated the continuance of a downward trend noticeable over a number of years and due partly to competition from Dutch butters and from locally made and imported margarine. Of other foodstuffs exported, only fruit and milk showed a slight increase. Netherlands Indian foodstuff purchases thus offered no compensation for the contraction of exports of similar goods to other Far Eastern countries in 1936-7, though they remained quite significant among Australian food exports generally.

The new policy of industrialization in the Netherlands Indies had interesting effects upon one or two smaller items among the imports from Australia. The inauguration of the domestic manufacture of soap, using palm oil as a constituent in place of tallow, led to a sharp decline in Australian exports of tallow in 1936-7, though these had been increasing noticeably in the immediately preceding years. The establishment of small tanneries was another feature of the industrialization program which was held likely to affect imports of Australian hides in small quantities.<sup>78</sup>

Australian trade with Netherlands India, unlike that with most other Far Eastern countries, has for years been balanced adversely to Australia, and since the expansion of exports thither in 1936-7 was much smaller than the expansion of im-

<sup>77</sup> I. Clunies Ross, *op. cit.*, p. 217.

<sup>78</sup> Department of Commerce, *op. cit.*, p. 8. See also *Far Eastern Survey*, June 9, 1937, Vol. VI, p. 129.

ports, the adverse balance increased in 1936-7 by about one third to £5,062,471 sterling.

Thus in no other country in Eastern Asia did Australia find adequate compensation for the loss of exports suffered as a result of her trade war with Japan, and although in 1936-7 Australia barely managed to maintain a favorable trade balance with Japan itself, the balance with the Far East generally, which had been markedly in Australia's favor for many years, was now transformed into an adverse one for the first time.<sup>69</sup>

This chapter has centered mainly on economic aspects of Australia's relations with the Far East during 1936 and the first part of 1937, although in many respects the changes which have been discussed were influenced by factors primarily political. Prior to 1936 Australia's trade with the Far East had developed rapidly, to Australia's great advantage, and government intervention though slight had been benign in its influence. But the inauguration of the Australian trade diversion policy at the end of May 1936 ushered in a period when political intervention very largely reversed a development which many had hoped was only the beginning of a closer, more friendly and more profitable association between Australia and her neighbors in Eastern and Southeastern Asia.

There were also a number of more purely political developments during 1936 and the earlier half of 1937, which had a most important bearing on Australia's relations with the Far East, and if a strictly chronological arrangement were to be preserved in this study they should be discussed in the present chapter. Their nature and significance is, however, such that discussion of them falls more appropriately within the scope of the next section wherein political developments are more to the fore.

<sup>69</sup> Department of Commerce, *op. cit.*, p. 1.

## CHAPTER IV

### AUSTRALIA AND THE FAR EAST DURING THE SINO-JAPANESE CONFLICT: POLITICAL ASPECTS

#### *Reactions of the Press and Public*

The authors of two recent surveys of Australian public opinion have each remarked upon the relatively greater interest shown by Australians in the struggle between Japan and China which began in July 1937 than was evident at the time of the conquest of Manchuria. "The outbreak of the Sino-Japanese conflict in 1937 did more than any other question had done up to then, to stimulate Australian interest in foreign policy"<sup>1</sup> and "the general public revulsion against Japan at the present moment . . . was not nearly so evident in 1931, when Japan invaded Manchuria."<sup>2</sup> Far more prominence was given in the press to Far Eastern news than ever before, and the greater unanimity of feeling against Japan was clearly reflected in the editorial columns, more especially in those of several papers which in 1931 and 1932 either supported Japan or adopted a neutral attitude. The *Sydney Morning Herald*, for instance, completely reversed its opinion in 1937 and took up a strongly condemnatory attitude toward Japanese policy in China, whereas before it had been more than sympathetic; the *Melbourne Herald*, previously noncommittal, now became outspoken in its denunciation of Japanese aggression, and said of the bombing of Nanking that "a war crime as extensive and odious has no precedent in history . . . the whole of civilization revolts with its contemplation."<sup>3</sup>

While the greater magnitude and seriousness of the operations in China account to some extent for both the increase in interest in foreign affairs and the revulsion of feeling against Japan, the chief explanation lies in the fact that since 1931 the

<sup>1</sup> E. A. Ferguson *et al.*, *Australian Foreign Policy*, Australian Supplementary Papers, British Commonwealth Relations Conference, Series D, No. 2, p. 5.

<sup>2</sup> Pearson, *op. cit.*, p. 51.

<sup>3</sup> *Ibid.* A change of editors may partly account for the *Sydney Morning Herald's* change of heart.

Australian public had become increasingly conscious of the possible implications for its own future of successive breaches of the peace by aggressive powers, each giving clearer evidence than the one before of the failure of the collective security system. Japan's successful flouting of the League Covenant and the Washington treaties in 1931 was seen by 1937 as merely the first of a series of blows at the system upon which Australia, like other small powers, had rested much of its hope for security in the years after the World War. Japan's conquest of Manchuria had been followed by her resignation from the League in 1933, her denunciation of the Washington Naval Treaty in the following year, her refusal to renew the London Naval Treaty of 1930, and the announcement of her determination to keep her mandated islands. Developments in Europe also contributed to the growing sense of insecurity in Australia, not only because they spelt the doom of the collective security system, but more especially because they threatened to tie England's hands in Europe and reduce her ability to assist in the defense of her dominions in the Pacific. The Italo-Abyssinian crisis excited particular interest and alarm in Australia because it emphasized the possibility that Britain's line of communication to the East and to Australia through the Mediterranean might be cut and the bulk of the British navy fully occupied in European waters. For the first time the faith of the Australian public in Britain's naval supremacy was badly shaken. The early failures of the collective system had forced Australians to place their trust even more than before in the Singapore base, but now they began to wonder how useful the base would be if there should not be enough ships available to operate from it in time of need. Australia played her part in the imposition of sanctions against Italy but only with some trepidation, and their failure to prove effective, and the threat of war which they evoked, served only to confirm opposition to such measures in the future.

The link between European fascism and Japanese militarism established by the "anti-Comintern pact" in November 1936, reintroduced Germany to the Pacific scene, and created in the Australian public mind an unhappy association of "menaces," which assurances that the agreement had no military significance did little to remove. Rumors that the pact involved a secret understanding for a partition of Oceania and Indonesia, in

which Germany was to be compensated at the expense of the Netherlands for the retention by Japan of her share of Germany's former insular possessions in the Pacific<sup>4</sup> gave it a particularly sinister significance in Australian eyes, both because Netherlands India was a vital link in Australia's defense system, and because Australia was herself the possessor of extensive island territories in the Pacific, part of them formerly German. Fears that Germany's demand for the restitution of her former colonies might extend to the Mandated Territory of New Guinea were already current in Australia, and the "anti-Comintern pact," with its accompanying rumors greatly increased this anxiety.

The cumulative effect of the developments just briefly outlined upon Australian opinion, and especially the growing realization that events in Europe had a very direct bearing upon Australia's own position, account very largely for the unprecedented public interest in the fresh breach of the world's fast-disappearing peace, which came in July 1937. Once more there was trouble in the Pacific, with Japan in the role of trouble-maker—a Japan whose strategical position in the Pacific had been enormously strengthened since 1931 by the deterioration of the European situation. It was not surprising that Australians with the memory of the trade war fresh in their minds, much more conscious now of Japan's nearness to their own shores, and much less confident of Britain's ability to come to their aid if trouble spread southward, should have viewed this fresh manifestation of Japan's power and ambition with the deepest interest, not to say concern. As in 1931, there was humanitarian sympathy with China and strong feeling against Japan as the aggressor, only now these feelings were stronger in proportion to the greater extent of human suffering involved in the larger conflict.

Apart from condemnation of Japan's policy, the popular attitude toward Japanese policy in China found expression in public demonstrations, resolutions of trade unions and other bodies, private statements in the press and numerous demands for a boycott of Japanese goods.<sup>5</sup> There is little evidence of any large-scale consumer boycott of goods imported from Japan, either in the trade statistics or elsewhere, and probably only

<sup>4</sup> A. J. Toynbee, *Survey of International Affairs*, 1936, p. 387, note.

<sup>5</sup> *Austral-Asiatic Bulletin*, October-November 1937, Vol. I, No. 4.

a small minority of people translated their feelings into action. However, there were concerted and, for a time, very effective efforts on the part of organized labor to stop the loading of war materials on ships destined for Japan. This type of action is less significant as a cause of embarrassment to Japan than for its reactions within Australia which will be examined in a moment. The action of the waterside workers is mentioned at this stage only as an illustration of the popular feeling toward Japan. As in 1931, there were also those who saw in Japan's preoccupation with the Asiatic mainland an assurance that she would not attempt any southward move for a long time to come, while others feared an Anglo-Japanese conflict into which Australia must inevitably be drawn. To put it briefly there was virtual unanimity on the morals of the case, but wide diversity of opinion as to its implications for Australia. As to the proper attitude for Australia to adopt there was also difference of opinion, one large group favoring economic action against Japan and another a policy of "non-intervention." However, uneasiness over the world situation in general and the Far Eastern situation in particular disposed most Australians to favor the strengthening of their own defenses, opinion in this respect being divided only on matters of method. This uneasiness was enormously intensified by the Czechoslovakian crisis in September 1938, and the rapid deterioration of the international situation during the months that followed.

Lest a false impression should have been given in this discussion of popular reactions in Australia to the Sino-Japanese conflict, it should be emphasized that even though in 1937 there was growing interest in events in the world outside Australia, and very much greater interest in Far Eastern developments than there had been six years before, the proportion of the population whose knowledge of international affairs went beyond a day-to-day familiarity with newspaper headlines remained very small. Even those Australians who conscientiously read the news below the headlines are given no very clear, comprehensive or balanced picture of developments abroad. Australian papers draw their overseas news mainly at second hand from a variety of London sources and it is presented as a hotch-potch of fact and opinion which makes little sense to readers poorly equipped with background information. There is an extraordinary paucity of news from Pacific countries and Aus-

tralian papers have practically no full-time special correspondents of their own abroad. There is no direct press service by cable from the Far East to Australia, and only very meager and infrequent reports come by mail. All cable news from the Far East comes via London, through British channels—and in selection, presentation, and general color it reflects a viewpoint which is in the main "not only British but official British." Furthermore, as Macmahon Ball has pointed out, Australian newspapers have yet to realize that "the selection, collection and presentation of cable news is a highly specialized and professional task, which demands a very thorough and specialized intellectual training."<sup>6</sup> The result is that the bulk of the Australian public gets only a crude general idea of what is happening abroad, especially in the Far East. If one adds to this the fact that Australians have long been primarily preoccupied with their own domestic affairs and that geographic remoteness and lack of contact with alien peoples have bred a high degree of insularity which is only intermittently broken down, it is easier to understand why Australian public opinion on foreign policy often lacks continuity or consistency, and why the serious and well-informed discussion of foreign affairs is confined to a very few. By 1937, the very frequency with which international crises filled the headlines had jaded many an appetite for sensation and bred a curious insensibility to war scares which amounted almost to boredom.

At first the magnitude of the conflict which began in China in July 1937 was sufficient to win it great prominence in the press and seriously to shock public opinion. But the interest in the Far East thus aroused, fed mainly on a diet of confused accounts of military operations in a region with whose geography Australians in general were, to put it mildly, unfamiliar, was already waning when events in central Europe crowded China almost completely out of the news in March 1938. Thereafter, there was little room left for Asiatic news except occasionally when developments in the East were sufficiently sensational to give them greater news value than those in the West.

### *The Diplomatic Policy of the Government*

Such is the background of press and public opinion against which Australian official policy developed after the commence-

<sup>6</sup> W. Macmahon Ball, *Press, Radio and World Affairs*, pp. 12, 28.

ment of the war in China.<sup>7</sup> The nervousness, the indecision, the lack of continuity, the emotional sympathies, the conflicting hopes and fears, and even the incomplete knowledge of the facts which characterized popular reactions to the war in the Far East all had their counterparts in the attitude of the Australian Government.

In the year preceding the outbreak of the Sino-Japanese conflict there was evident a desperate anxiety to stop the deterioration of the international situation, especially in the Pacific area, where Australian interests were most vitally concerned. Australian suggestions for the reform of the League of Nations offered late in 1936<sup>8</sup> significantly included the idea that "an effective contribution to the general principle of collective security contained in the League would be for States, in regions where their national interests are directly involved, to agree to some form of regional pact, subsidiary to the Covenant, by which they would be obliged to render military assistance, in circumstances laid down by the agreement, if one or more of them should be attacked by an aggressor." Although the United States and Japan, the two greatest powers in the Pacific area where Australia's vital interest lay, were non-members of the League it was urged that "the promotion of a regional understanding and pact of non-aggression for Pacific countries in the spirit of the League undertakings should not be beyond the bounds of possibility." It was further suggested that "before proceeding to deal at all with amendments to the Covenant, the League should consider inviting non-member states to confer with it as to the nature and form of desirable amendments," the United States and Japan being mentioned specifically along with Germany as non-member states who should be consulted. These suggestions clearly indicate the desire of the Australian Government to see some system of guarantees set up which would restore the sense of security which the Anglo-Japanese Alliance and then the League and the Washington Treaties had formerly created.

The proposal for a regional pact for the Pacific was advanced again by the Australian Prime Minister at the Imperial Conference in May 1937, when he declared that "Australia would

<sup>7</sup> For a fuller account see W. Macmahon Ball, *op. cit., passim.*

<sup>8</sup> See F. Aarons, *What the League of Nations Means to Australia*. Australian Supplement Papers, B. C. R. Conference, Series D, No. 4.

greatly welcome a regional understanding and a pact of non-aggression by the countries of the Pacific, conceived in the spirit and principles of the League."<sup>10</sup> There was a good deal of doubt as to precisely the kind of pact Mr. Lyons had in mind and the scheme was never presented in any very specific form. Reactions to it in other Pacific countries were as various as the interpretations placed upon it. The Japanese Ambassador in London took it that a conference was proposed and expressed a personal wish that it should be held in Tokyo. The U.S.S.R. was impressed with the political possibilities of the pact proposed and *Izvestia* declared that "such a pact would coincide with the interests of all Pacific countries. Collective security in the Pacific would play a tremendous, and possibly a decisive, role in ensuring European peace, and would be a powerful factor in preventing the terrible slaughter the Fascist aggressors are preparing."<sup>11</sup> But the *Oriental Economist* was skeptical about the value of the pact unless it was "based on the positive policy of promoting a freer interchange of goods and services in the Pacific;" Japan, it was said, would be the "first country in an agreement to that end."<sup>12</sup> The reactions of other Governments of the British Commonwealth were summarized by Mr. Eden in the House of Commons, late in June; all of them, he said, "were united in thinking that a Pacific Pact was a desirable objective. They examined the possibilities in some detail during the Conference, they considered the various forms which the pact might assume, and they noted a number of difficulties which would have to be overcome. This is a matter which must be approached with some circumspection, and it might be unwise to attempt negotiations until we know a little more clearly what are the views of certain other Governments in the matter, but we hope to have opportunities shortly of making preliminary soundings among those Governments which are principally interested, after which we shall be in a position to decide whether definite proposals can be made with any reasonable chance of success."<sup>13</sup> The Australian proposal for a Pacific Pact

<sup>10</sup> For a fuller discussion of this proposal see J. G. Crawford, "Australia as a Pacific Power" in *Australia's Foreign Policy*, W. G. K. Duncan (ed.), p. 106 *et seq.*

<sup>11</sup> J. G. Crawford, *op. cit.*, p. 107.

<sup>12</sup> *Oriental Economist*, June 1937, Vol. IV, p. 335.

<sup>13</sup> *Survey of International Affairs*, 1937, p. 166.

was thus still very much in the air when the outbreak of hostilities in China removed it, at least for the time being, from the realm of practical politics. Its interest for us at the moment, however, is that it was an indication of the Australian Government's anxiety to see some sort of collective system of maintaining order established in the Pacific to replace that embodied in the defunct Washington Treaties.

Once armed conflict had begun, the Australian Government alone could do little further to remedy the situation. Having accepted an invitation to send representatives to meetings of the League's Far Eastern Advisory Committee in September, Australia shared the initial responsibility for the resolution condemning the bombing of open towns by Japanese aircraft and for the reports of the Committee, subsequently adopted by the Assembly, which branded Japan as the aggressor and recommended collective moral support for China and individual consideration by the States Members of the extent to which they could give her more concrete assistance.<sup>13</sup> Australia was also represented at the abortive Brussels Conference in November.<sup>14</sup>

In general, it may be said that the official Australian attitude toward international attempts to check Japanese aggression in China in 1937 was very much the same as it had been in 1932, except that in 1937 effective League action was not regarded as a serious possibility, and consequently the Government had not to worry about the possible repercussions of participation in international sanctions against Japan. Left by the League to choose for itself what action it should take to help China or deter Japan, the Australian Government decided to make no move in either direction. Australia was in no position to give positive assistance to China, although private organizations could and did contribute toward the provision of medical supplies and services. On the other hand, the trade dispute in 1936 had brought home to the Government the economic and other difficulties involved in interference with trade to Japan, and so it was more disposed to seek the restoration of Australian-Japanese trade to something like the old level than it was to yield to pressure from those who advocated a ban on some or all of Australia's exports to Japan.

<sup>13</sup> *Ibid.*, p. 280.

<sup>14</sup> *Ibid.*, p. 285.

*Government Attitude to Private Boycotts*

So firmly did the Australian Government set its face against unilateral sanctions against Japan that it even sought to prevent private action to curtail exports of war material. The first of these attempts was the refusal by Sydney waterside workers on January 25, 1938, to load cargoes of tin scrap, on the ground that the metal would probably be used in the manufacture of munitions for the China war. This boycott was continued for more than four months, and early in May it spread to the Melbourne waterfront where cargoes of tin and iron scrap were waiting to be loaded. At first the Government sought to end the boycott by gentle persuasion. The acting Attorney-General, Senator McLachlan, warned members of the Waterside Workers' Federation that their action was not "conducive to international peace," and appealed to the men not to take action which might be regarded as offensive to a foreign power. Members of the Government and others questioned the utility of barring metal exports to Japan while allowing wool and other produce to be shipped freely. Wool could be used to clothe soldiers and wheat to feed them, ran the argument, so that a boycott could not logically be confined to tin or iron; but, then, any attempt by Australia to impose general sanctions against Japan would not only be futile but dangerous. Furthermore, the complete cessation of Australian exports to Japan, it was urged, would entail greater economic difficulties than the country could well afford. Even some union officials indicated that "officially they disapproved of the action taken by members in refusing to load ships." But despite all argument the men stood their ground.

By May the Government was growing impatient, and when a final effort to persuade the waterside workers to "leave matters of foreign policy to the Government" proved unavailing, it was announced that the provisions of the Transport Workers Act would be applied on May 25, in those parts where the boycott was still in force.<sup>15</sup> This Act was one, designed originally for use in breaking illegal strikes, which empowered the Government to apply a licensing system to transport workers. Its application in this case would have meant that in the ports of Sydney and Melbourne all stevedores would be required to

<sup>15</sup> *Austral-Asiatic Bulletin*, June-July 1938, Vol. II, No. 2.

take out licenses, but that none would be issued to those participating in the boycott. The "Dog Collar Act," as it was called by the trade unionists, had been applied before with results disastrous to the waterside unions, and so, at the last minute, in meetings of the unions concerned in Sydney and Melbourne, the boycott was abandoned. The Government then refrained from instituting the licensing system.

The same problem arose again in a more serious form, at Port Kembla, when on November 15, 1938, a rank and file meeting of waterside workers refused to load the *Dalfram* which had come to pick up the first of a series of shipments of pig iron ordered from the Broken Hill Proprietary Company for Japan. Only a few weeks before the Sydney unions had been deterred from applying a similar boycott by a renewed Government threat to invoke the licensing system, but since no non-union labor was available in the new industrial center of Port Kembla, the men there apparently felt themselves in a stronger position to challenge the Government, and risking application of the Transport Workers Act, decided themselves to apply "working-class sanctions" against Japan.

As on previous occasions of the kind, the Government sought, first by persuasion<sup>16</sup> and then by threats of licensing, to end the boycott. At the end of November, an ultimatum was presented to the men by the Federal Cabinet, in which the Government expressed its intention of invoking the Transport Workers Act if the loading of the *Dalfram* were not resumed within a week. In announcing the Government's determination the Attorney-General, Mr. R. G. Menzies, declared that "the men's persistent refusal to load pig iron for Japan raises an important issue. The question is not whether the waterside workers are right or wrong in their views on what the international policy of Australia should be; it is whether that policy is to be determined by the duly constituted Government of the country or by some industrial section. There can be no doubt that if international relations are to be sensibly and peaceably handled no responsible Government can submit to dictation by a section of its people. The Government has, therefore, decided that it must take steps to enforce its authority."<sup>17</sup> Mr. Menzies claimed that the action taken at Port Kembla was "inconsistent with the

<sup>16</sup> *Sydney Morning Herald*, November 26, 1938.

<sup>17</sup> *Ibid.*, November 29, 1938.

principles of democratic Government."<sup>18</sup> The Port Kembla men stood firm, and the Federal committee of the Waterside Workers Federation sent a reply to the Attorney-General, intimating that while it had no wish to interfere with the Government's policy, individual members of the Federation were free at all times, under the existing Federal award, to choose which employer they wished to work for. Their present action was, therefore, not inconsistent with the principles of democratic freedom. The policy of the waterside workers was endorsed by a conference of 17 trade unions, and there were threats of a general strike involving 4,000 employees of the Port Kembla steel works. The conference called upon the Government to withdraw its ultimatum and the trade union movement to rally to the support of the waterside workers; it declared that "to supply iron in any form to Japan is injurious to the national and defense interests of the Australian people." The argument implicit in this resolution was stated more specifically by one speaker at the meeting who declared that "if they supplied Japan with war materials, the day might not be far distant when those materials would be used to capture Australia."<sup>19</sup>

The Government then felt itself obliged to bring the licensing system into operation.<sup>20</sup> So solid was the feeling in Port Kembla, however, that no volunteers presented themselves for licenses, and the *Dalfram* remained unloaded. There was no general strike, but the Australian Iron and Steel Company, a subsidiary of the Broken Hill Proprietary Company, which controlled the steel works at Port Kembla shut them down, throwing 3,000 to 4,000 men out of employment.<sup>21</sup> This action was evidently taken to reinforce the Government's effort to break the boycott. Steel for Japan formed only a relatively small part of the output of the Port Kembla mills, and although with the licensing system in force and no applicants presenting themselves for licenses, iron and steel for other destinations could not be shipped direct from Port Kembla, it could readily have been sent the short distance to Sydney by rail. The men dismissed from the steel mill persisted, despite the loss of their

<sup>18</sup> *Ibid.*, December 1, 1938.

<sup>19</sup> *Ibid.*, December 5, 1938.

<sup>20</sup> *Ibid.*, December 8, 1938.

<sup>21</sup> Lloyd Ross in *Austral-Asiatic Bulletin*, February-March 1939, Vol. II, No. 6, p. 11, and *Sydney Morning Herald*, December 23, 1938.

own employment, in their support of the waterside workers' boycott.

By this time the matter was attracting national attention and there was ample evidence that the boycott had a degree of public support which went far beyond that of the organized labor movement. Even the conservative press expressed sympathy with the motives of the Port Kembla watersiders if not with their method, and expressed doubts as to the wisdom of the Government's attitude regarding the export of iron to Japan. "Neither the Government nor the steel company," said the *Sydney Morning Herald*, "has yet justified with the public its insistence upon the national importance of exporting this pig iron . . . it is something new in our history to hear that the continued working of this secondary industry depends on its export trade."<sup>22</sup> Questions were being raised as to the legitimacy of applying the Transport Workers Act in the Port Kembla case; the Act was originally designed to prevent *illegal* strikes but there was considerable doubt as to whether the *Dalfram* strike was illegal. The Government's embarrassment was increased by demands from the unions that a Federal referendum be held on the question of the export of war materials to Japan.<sup>23</sup> The trouble threatened to extend to the Sydney waterfront when waterside workers there refused to handle two other small shipments of pig iron destined for the East, but the two ships involved sailed with other cargo when calls for labor to load the pig iron proved unsuccessful.<sup>24</sup> Even though actual boycotting was confined to Port Kembla the issue had now become one in which the Government felt its own prestige to be involved, and so in an effort to break the deadlock, the Attorney-General himself visited the center of the disturbance early in January.

In the course of Mr. Menzies' discussions with trade unions and other groups in Port Kembla, there was an exchange of views which, if not cordial, at least cast some additional light on the attitude of the Government and that of supporters of the boycott. According to reliable reports, Mr. Menzies went so far as to tell one deputation "that he agreed that there should be a complete embargo by all countries on the export of goods to aggressor nations, but added that it would be dangerous for

<sup>22</sup> *Sydney Morning Herald*, January 9, 1939.

<sup>23</sup> *Ibid.*, December 8, 17, and 23, 1938.

<sup>24</sup> *Ibid.*, December 14 and 15, 1938.

Australia to take the drastic boycott steps suggested by the unions. Such an action, he said, would be provocative and might possibly lead to war. Australia could not afford to adopt such an isolationist (*sic*) policy."<sup>25</sup> He reiterated the Government's contention that the action of the boycotters was in effect an attempt to dictate the Government's foreign policy which the latter could not tolerate: "nations like Japan, which are accustomed to a high degree of authority in their governments, have difficulty in understanding how, in a country like Australia, one policy can be announced by the government and another policy be acted upon by a section of the people. . . . If the government is to be defied, the result will be that unofficially Australia will have imposed sanctions against Japan in relation to her Chinese war. . . ." He, therefore, suggested, as a basis of settlement, that the men should load the *Dalfram*, submit their views on the supply of raw material to aggressor nations to the Government, and that the Government would then reconsider its policy in this respect and discontinue the licensing system. On the other hand, union spokesmen argued that already Japan was Australia's potential enemy and that "they would not load any pig iron for Japan when they knew it might be used for the manufacture of rifles to shoot down Australians eventually."<sup>26</sup> It was denied that the boycott involved any attempt to dictate to the Government on matters of foreign policy. One union official contended that wharf laborers in America and England had taken the same stand as the Port Kembla workers, and that Governments in those countries had not felt obliged either to assume responsibility for the action of individuals or to take action against them: "If it is good enough for Mr. Chamberlain to do this, why is it not good enough for Mr. Lyons?"<sup>27</sup> Another charged the Government with being out of step, both with Australian public opinion, and with the policy of other friendly nations.<sup>28</sup>

Although during the next few days a settlement of the immediate issue of loading the *Dalfram* was agreed upon between Mr. Menzies and a committee of trade union leaders in Sydney, along the lines Mr. Menzies had suggested at Port Kembla, it

<sup>25</sup> *Ibid.*, January 12, 1939.

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

<sup>28</sup> *Ibid.*

is a significant indication of the determined attitude of the rank and file that for some time they refused to accept the advice of their own officials and it was only when they were eventually convinced that the Government was likely to change its policy and adopt the recommendations in favor of a future embargo on the export of war materials to Japan that they agreed to load the *Dalfram*.<sup>29</sup> Under the terms of settlement the licensing regulations at Port Kembla were lifted, and the Prime Minister and the Attorney-General agreed to meet trade union representatives in Melbourne on January 24 and discuss the question of an embargo on future exports of pig iron.<sup>30</sup> This meeting duly took place, but on February 14, after a meeting of the Cabinet, the Prime Minister announced that it had been decided to reject the union proposals.<sup>31</sup>

The declaration of policy which accompanied the announcement was particularly important: "The Government, while recognizing and sympathizing with the humanitarian motives which actuated the unionists is unable to accede to their request. The Government is compelled to view the position from the widest national aspect. It has to consider the effect of any interference with the ordinary flow of trade upon other industries and upon other Australian interests. To single out one commodity and one nation would amount to a discrimination wholly contrary to the declared policy of the Government to preserve and maintain friendly relations with all countries. Further, it must be apparent that in the present unsettled state of the world such an act might be fraught with grave consequences. It has been said that we should impose a ban upon exports to Japan because of Japanese action in China. The Government is not prepared to impose sanctions upon any country, except in conjunction with other countries."<sup>32</sup>

There was bitter disappointment among the waterside workers who, without any hope of gain for themselves, had for nearly three months sacrificed their own livelihood in order to make their contribution to the checking of an aggressor nation. They had clearly hoped that the representation of their leaders to the Government would bear some fruit and lead to the imposi-

<sup>29</sup> Lloyd Ross, *op. cit.*, p. 11.

<sup>30</sup> *Ibid.*

<sup>31</sup> *Sydney Morning Herald*, February 15, 1939.

<sup>32</sup> *Ibid.*

tion of nation-wide "sanctions" against Japan. But the Government decided to adhere to its original policy and, apparently feeling that further struggle was useless, the men of the waterfront indicated their intention, on February 17, to load future shipments of pig iron "under protest."

One incident during the course of the dispute, which illustrates the extraordinary lengths to which the Government was prepared to go in suppressing criticism of its policy, was the closure without warning of the trade union-owned radio station 2KY, Sydney, after a news commentator had accused the Postmaster General of ordering a censorship of telegrams to Port Kembla and the tapping of trade union telephone lines. The Postmaster General immediately had a writ served ordering the closing of the station, and Post Office engineers cut the connection between the studios and the transmitters in the middle of a commercially sponsored program. This action evoked strong protests not only from the trade unions but from a wide variety of sources including the conservative press. The ban was removed three days later, on December 24, after the station authorities had published an apology in the press, saying that they believed to be untrue their commentator's statements regarding the censorship of telegrams and the tapping of telephone wires. Whatever the truth may have been regarding censorship of telegrams and telephones, the shutting of the radio station was in itself an arbitrary and unprecedented action which in the words of the *Sydney Morning Herald* savored "too much of dictatorial censorship to be palatable to a freedom-loving community."

The voice of the *Herald* was but one of many now raised in protest. Evidently there was wide appreciation of the sinister implications of an official attitude which sought to limit not only the right of certain people to take overt but peaceful action in accordance with conscience but even the right to full freedom of thought and expression.

The whole dispute between the Australian Government and the waterside workers is very significant as a phase of the Australian public's reaction to Japanese policy in China, and more significant still because of the expressions of government policy which it evoked. On the part of the public and particularly, though not exclusively, among the ranks of organized labor it revealed an abhorrence of Japanese aggression which was all

the stronger because of the fear mixed with it—the old fear that although China was the victim today, Australia might be the victim tomorrow. On the part of the Government the dispute revealed a nervous realization of the delicacy and the danger of Australia's position in a disordered world, and a desperate anxiety to avoid any statement, action, or even inaction, which might be construed as provocative by a powerful and apparently lawless neighbor. It revealed too the same sensitivity to criticism direct or implied and the same inclination toward measures of censorship which had been so evident during the trade war. Above all, it showed the determination of the Government not to impose, or even allow its citizens to impose any unilateral sanctions against Japan.

#### *The Iron Ore Export Embargo*

The anxiety of the Australian Government to avoid offense of any sort to Japan and the firm determination to refrain from unilateral sanctions which was so clearly evident in the controversy with the waterside workers, render more remarkable the action taken in May 1938 to prohibit the export of iron ore, just at a time when Japan was looking to Australia to become an important supplier of essential raw material for her fast-developing heavy industries. Although the ban applied equally to all countries, Japan was the one most affected and to the Japanese and to the outside world as a whole, it must have looked remarkably like a deliberate attempt to embarrass Japan by cutting off the Australian supply of vital raw material. However, closer examination of this phase of Australian policy reveals that, whatever it may have been, it was certainly not anti-Japanese in intention.

Compared with Japan, Australia is rich in iron ore. Over the years there has been built up in Australia a very substantial iron and steel industry, catering mainly to the domestic market, which has drawn the bulk of its supply of ore from deposits at Iron Knob near Port Pirie in South Australia. Smaller deposits have been worked in the other states and a number of deposits of varying extent are known to exist, which have never been exploited or even thoroughly surveyed. By far the most important of the known but unworked deposits are those of Yampi Sound on the northwest coast, about 150 miles northeast of Broome. The principal deposits are concentrated on two islands

in the Sound—Cockatoo Island and Koolan Island; they are believed to be very extensive and tests have shown the ore to be of high quality. Although readily accessible by sea, these deposits are very remote from any settled area and the iron fields of South Australia have hitherto been able quite adequately to supply the entire needs of Australian heavy industry. Thus, although leases for the Yampi deposits have been held by various parties since 1907, no Australian interests have ever attempted to develop them.

In October 1934, however, permission was given to a number of Japanese experts to inspect the Yampi deposits, and during the following year the British firm of H. A. Brasserts and Company acquired a lease of Koolan Island. It was subsequently announced that they proposed to develop the field with capital provided by the Nippon Mining Company. It was understood that an Australian operating company formed by Brasserts would provide the plant and machinery on condition that the Japan Mining Company purchased the entire output. The Japanese firm was to take delivery of the ore at Koolan Island and four Japanese experts were to be stationed there to grade and test it. It was then to be shipped to Japan in vessels of the Nippon Yusen Kaisha.<sup>53</sup>

At first little attention was paid to Yampi by the Australian public, although from the outset the Commonwealth Government and the State Government of Western Australia were kept informed of developments, and according to a representative of Brasserts, that company "received the full cooperation of the (West Australian) Government in every step taken."<sup>54</sup> Even the trade war between Japan and the Commonwealth seems to have caused no hitch in the arrangements, and it was expected that production would commence before the end of 1938.

Early in 1937, reports of a world steel shortage which was said to be particularly acute in Britain were given prominence in the Australian press and simultaneously attention was drawn to the proposed development of the Yampi Sound field in the

<sup>53</sup> A detailed history of the deposits and a brief account of the arrangement between Brasserts and the Nippon Mining Company is given in *Current Notes on International Affairs*, March 1, 1937, issued by the Australian Commonwealth, Department of External Affairs.

<sup>54</sup> *Sydney Morning Herald*, March 5, 1937.

interest of Japan. The Sydney *Sun* carried a story by its special representative in London questioning the wisdom of allowing Australian ore to go to Japan when "Britain is drawing iron ore largely from outside the Empire." "It is easy to see the possibility of complications," the article went on, "if and when Japan is drawing 1,000,000 tons a year from Australia. Will the Japanese be satisfied with the cost involved in employing Australian labour? . . . Some of those most concerned with the defense development of the Empire wish that Yampi Sound iron ore had received more attention from Australia."<sup>35</sup> A conservative member of the Federal Parliament, in a public address which was widely reported, declared that "Australia should develop the deposits herself, as, controlled by foreigners, they might lead to serious trouble in the future."<sup>36</sup>

More responsible quarters were skeptical both of the alleged dangers of foreign participation in the development of Yampi Sound iron, and of the need for government action in the matter. Official circles in Canberra were reported as believing "that supplies of iron and iron ore for all imperial purposes from existing sources are more than adequate, and that any shortage in Britain can easily be adjusted through ordinary channels of commerce." Furthermore, the official view was said to be "that any effort to restrict Japan's access to the deposits at Yampi would be dangerous, as it would strengthen Germany in her claim to colonies by enabling her to demonstrate that the Empire was restricting access to the natural resources of the dominions. Moreover, since one of Japan's chief sources of iron at present is British Malaya, and since the British Colonial Office has made no attempt to restrict purchases by Japan in that colony, it is regarded as evident that the British Government agrees with the policy of the Commonwealth that restrictions should not be imposed on foreign customers."<sup>37</sup> The Defense Department was reported as favoring the exploitation of the deposits in peace time in order that a plant would be installed there which could be taken over in time of war. A careful investigation by the same department was said to have been carried out some months before, which had led them to the conclusion that there could be no objection to the devel-

<sup>35</sup> *Sydney Sun*, March 4, 1937.

<sup>36</sup> *Sydney Morning Herald*, March 4, 1937.

<sup>37</sup> *Sydney Morning Herald*, March 4, 1937.

opment of the Yampi iron on the lines proposed.<sup>38</sup> The West Australian Minister for Mines vigorously protested against proposals to obstruct the Yampi development, insisting that the operating company was purely British, and enjoyed the confidence of his Government.<sup>39</sup> The weight of opinion against any interference by the Commonwealth was apparently great enough at that time to deter the Federal Cabinet from taking any action, and after the whole matter had been carefully considered by the Federal Cabinet it was decided in March 1937 that nothing need be done.

Thereafter the matter fell once more into the background, where it remained, more or less, for over a year, although the agitation for a restriction of iron ore exports to Japan was renewed from time to time, especially after the outbreak of hostilities in China. But the Government apparently remained as firmly determined not to restrict the export of iron ore to Japan as it was not to allow the waterside workers to hold up shipments of pig iron and scrap. Advocates of restriction made much of reports that experts were doubtful of the adequacy of Australian iron ore reserves, which were said to have been greatly exaggerated in earlier estimates. But as late as September 1937 the Prime Minister, Mr. J. A. Lyons, announced that a preliminary survey had actually shown the available resources to be larger than was originally supposed, and that the Government could still see no reason for banning iron ore exports to Japan.<sup>40</sup>

In May 1938, however, there came a reversal of the Government's policy in regard to iron ore as sudden and unexpected as the reversal involved in the "trade diversion" policy just two years before. The export of iron ore was completely banned as from July 1 and the reasons given were that fresh surveys had shown Australian iron ore reserves to be less extensive than had previously been supposed and that in view of the rapid expansion of Australian industry a conservation policy was now deemed necessary.<sup>41</sup>

It is sometimes necessary to distinguish between given reasons and real reasons in analyzing the basis of official policy, but in

<sup>38</sup> *Ibid.*, March 5, 1937.

<sup>39</sup> *Ibid.*

<sup>40</sup> *Far Eastern Survey*, July 15, 1938, Vol. VII, p. 164.

<sup>41</sup> *Australian Parliament Debates*, May 19, 1938.

this case an examination of the known facts makes it difficult to avoid the conclusion that the given reasons and the real reasons were identical. Of course, a variety of possible motives other than those mentioned by the Government readily suggest themselves, but one by one these can be ruled out. It seems scarcely possible, for instance, that the Government acted in response to the pressure of those groups which had been advocating such a move either in the imperial interest or as a check to Japan. The argument that the embargo was necessary in the imperial interest had been effectively eliminated by the counter-argument that the British Colonial Office was allowing the Japanese freely to exploit the iron ore resources of British Malaya. In fact the idea of iron ore conservation on imperial grounds had not been seriously urged since March 1937. On the other hand, the pressure in favor of sanctions against Japan was still strong but the embargo on iron ore exports came within a week of the Government's threat to apply the Transport Workers Act in Sydney and Melbourne if the waterside workers persisted in their refusal to load scrap for Japan,<sup>42</sup> and the opposition of the Cabinet to unilateral action against Japan was clearly evident both before and after the imposition of the embargo. Furthermore, it is difficult to find adequate grounds for the suggestion that iron and steel interests in Australia brought pressure upon the Government to impose the embargo. Those interests are concentrated almost entirely in the hands of the Broken Hill Proprietary Company and its subsidiary, Australian Iron and Steel. The latter holds its own leases on Cockatoo Island in Yampi Sound, but it has never attempted to develop them and the former controls the South Australian fields, from which both draw all the ore they require for their mills which are in New South Wales. Clearly the Yampi scheme involved no danger of Australian iron and steel interests being excluded from their sources of supply, while on the contrary, the Broken Hill Proprietary Company had itself been selling iron ore and pig iron freely to Japan over a number of years in increasingly large quantities. The B. H. P. Company thus stood to lose rather than gain from the embargo, since in the future they would be debarred from selling their ore in the expanding Japanese market. Even if for some reason best known to themselves the Broken Hill Pro-

<sup>42</sup> See above p. 80.

prietary Company did press for the embargo, the general contention that the Government's action was inspired by considerations of domestic interest and not by a desire to harass Japan remains valid.<sup>43</sup>

So far as can be ascertained, there had been only two major changes in the situation determining the Government's attitude toward the export of iron ore between the time early in 1937 when the Cabinet first considered and rejected the idea of an embargo and the time, in May 1938, when it reconsidered the matter and reversed its previous attitude. One was the Commonwealth Government's decision, announced in March 1938, to carry out a new and enlarged defense program, and the other was the presentation of a new report by Dr. W. G. Woolnough, the Commonwealth Geological Adviser, dated April 14, 1938, in which he indicated that earlier estimates of Australia's iron ore resources were excessive.

The new defense program will be considered in detail later. Suffice it to say at this point that it involved not only an increase of actual armaments but also the expansion and strengthening of the structure of Australian secondary industry; in fact, a development was envisaged which would clearly mean a marked increase in Australia's domestic consumption of iron ore. Viewed in relation to this development, Dr. Woolnough's report assumes especial importance. In the past, it had been assumed, though without precise knowledge, that Australia's iron ore reserves were far greater than her domestic needs were likely to be within the predictable future, but the Woolnough report of April 14 cast grave doubts upon the validity of this assumption. It suggested that of all the known deposits only two were large enough, of high enough quality and accessible enough to be economically workable, namely those at Iron Knob, in South Australia, and those at Yampi Sound. Furthermore, the ore at Iron Knob was said to be showing an increasing percentage of manganese impurity, thus greatly enhancing the potential importance of the high-grade Yampi ores. The Prime Minister in defending the embargo declared, on the basis of the report, that the estimated tonnage of ore available in the groups mentioned, assuming that the whole of it would

<sup>43</sup> It has been suggested that profits from the sale of pig iron are greater than those from the sale of iron ore, and that this fact might have influenced the attitude of the Broken Hill Proprietary Company.

respond to economical methods of mining and that its quality would be maintained, amounted approximately to 250,000,000 tons. The Australian domestic requirements at the time of the embargo were estimated at 2,000,000 tons but according to Mr. Lyons this figure was likely to be doubled or trebled; "Obviously, therefore, our resources viewed in relation to our requirements are dangerously limited . . . so limited as to cause very great concern as to the future of the iron and steel industry."<sup>44</sup>

On the evidence available there would seem to be little doubt that the two developments mentioned were the determining factors behind the Government's decision to ban the export of iron ore. The situation otherwise was the same in May 1938 as it had been in September 1937, and no other explanation adequately accounts for the Government's change of front. The very fact that the Government took the obvious risk that the embargo would be regarded as discriminatory against Japan, at a time when they were clearly anxious not to provoke Japanese hostility, indicates the seriousness of their concern regarding the domestic situation in respect of iron ore. It is questionable of course whether the Cabinet fully realized the serious effect of their action upon Japan's plans for the development of her heavy industries, and both the necessity and the wisdom of a policy of conservation of the kind adopted were widely questioned even in Australia.

The economic effects of the embargo upon Japan will be discussed more fully at a later stage, but the protest lodged with the Government by the Japanese Consul-General is worth noting here as an indication of the political significance of the new policy. The protest declared *inter alia* that "the reasons actuating the Japanese Government in granting permission for Japanese currency to be exported for the development of Yampi . . . was the desire . . . to foster cordial relations between Japan and Australia";<sup>45</sup> the implication was clear in the protest that the action of the Commonwealth in frustrating this development was regarded by Japan as likely to jeopardize those good relations. The reference to the permission given by the Japanese Government for the export of Japanese capital to Australia also drew attention to a very significant point.

<sup>44</sup> *Australian Parliament Debates*, June 29, 1938.

<sup>45</sup> *Austral-Asiatic Bulletin*, June-July 1938, Vol. II, No. 2, p. 20.

Japan's foreign exchange problem was already a very serious one and the fact that a comparatively large investment in the Yampi project had been permitted even after the outbreak of hostilities had greatly aggravated the exchange problem, was evidence of the national importance attached by the Japanese Government to the development of Yampi as a source of iron ore supply. The embargo thus not only offered a check to the operations of a private Japanese company but also meant interference with the plans of the Japanese Government itself for the expansion of the iron and steel industry.

Protests against the embargo were not confined to Japan, and within the Commonwealth itself there were those who suggested that it would react to the serious disadvantage of Australia. A relatively small section was concerned at the effects of the Government's action upon the political relations between Australia and Japan, relations which had not yet entirely recovered from the strain of the trade war in 1936. They argued that the embargo aggravated the world problem of raw material distribution, and gave Japan a real grievance against Australia, and that, in the absence of full knowledge of the extent of Australia's iron ore resources and in view of the impossibility of predicting accurately either the volume of consumption or the development of ore-refining technique over a long period, there were too many unknowns in the equation upon which the conservation policy was based.

Much more important than the views of this group were the protests that came from the Labor Government of Western Australia, the State most directly affected by the ban. Representations by the West Australian Premier at the time of the embargo having proved unavailing, he submitted to the State Parliament, late in August 1938, a formal resolution emphatically protesting against the embargo, "in view of its disastrous effects upon the development of the State," and urging the removal of the embargo. In supporting this resolution Mr. Willcock estimated that the direct losses which West Australia would suffer as a result of the embargo would amount in all to about £1,450,000. He based his calculation on the assumption that the export of iron ore from the Yampi field would continue for fifteen years at the rate of 1,000,000 tons per annum, and took into consideration royalties, wages which would have been paid to West Australian workers, purchases

of mining stores, harbor and light dues, and a number of other items. He declared that the Japanese ships which would have come to carry away the ore would also have carried live cattle to Japan as deck cargo and thus made possible the utilization of the potentially rich cattle country of the Yampi hinterland hitherto undeveloped because of the lack of communications. "We have it on the authority of Japanese people," he said, "that they are now importing chilled beef from South America, and that it would be, competitively speaking, a much better proposition to import live cattle from the North-West from which there would be a direct sea trip of ten or twelve days to Japan, compared with a much longer journey for the chilled beef from the other side of South America." Now that the embargo had been imposed the iron field of Yampi and the cattle country behind it would remain undeveloped to the great detriment of the State and the Commonwealth as a whole. He argued that even admitting the most pessimistic contention advanced by the Federal Government that about 250,000,000 tons of iron were available, the Japanese interests would have taken only 15,000,000 tons in all, and that assuming Australia's present ore consumption were trebled in the future, this would mean the loss of only two years' supply.<sup>46</sup>

The embargo was also criticized severely in the Federal Parliament, especially by representatives from Western Australian constituencies including Mr. John Curtin, the Leader of the Opposition.<sup>47</sup> During the months following the announcement of the new policy, suggestions were made for its modification to allow a limited quota of ore to be exported,<sup>48</sup> but beyond allowing the fulfillment of contracts concluded before the original announcement<sup>49</sup> and indicating its willingness to consider claims for compensation by the interests involved in the Yampi development scheme,<sup>50</sup> the Government would make no concessions. However, it did inaugurate a large-scale survey of Australia's iron ore resources to be carried out by the Departments of Mines in the various states working in collaboration with the Commonwealth Geological Adviser.<sup>51</sup> This sur-

<sup>46</sup> See *West Australian Parliament Debates*, August 30, 1938.

<sup>47</sup> *Australian Parliament Debates*, May 19, June 29, 1938.

<sup>48</sup> *Ibid.*, June 29, 1938.

<sup>49</sup> *Ibid.*, June 24, 1938.

<sup>50</sup> *Ibid.*, June 29, 1938.

<sup>51</sup> *Ibid.*, September 21, 1938.

vey was still in progress in the early part of 1939, and although it was reported<sup>52</sup> in August 1938 that certain new deposits had been found in Western Australia as a result of the survey, they were not economically accessible, and in the course of a debate on a motion for the raising of the embargo submitted by a Western Australian member of the Federal Parliament in January 1939, the Minister for the Interior reported that the survey had already confirmed Dr. Woolnough's opinion that earlier estimates of the extent and quality of a number of deposits had been excessively optimistic.<sup>53</sup> The Government thus remains adamant in its refusal to lift or modify the embargo even though there has been widespread questioning of its consistency in allowing the export of pig iron and banning that of iron ore.

The charge of inconsistency was strongly urged by the water-side workers in the Port Kembla dispute, but the Government offered the explanation that "we prohibited the export of iron ore to conserve our supplies of raw material for the use of Australian manufacturing industry and Australian workmen. Pig iron is not a raw material, but is a manufactured product of Australian workmen in Australian employment. The prohibition of pig iron export would reduce Australian employment. The question of the export of pig iron to Japan is a small and passing phase in our industrial life. The present contract—and there are no others—covers only 23,000 tons . . . and can have no material effect on the course of the Sino-Japanese dispute."<sup>54</sup> This explanation was not entirely satisfactory, even to the conservative press, and the *Sydney Morning Herald*, while opposing unilateral action of any kind against Japan, remarked "that on the broader issue of the exporting of iron, however, the attitude of the government still remains blurred with inconsistencies. Some of the reasons now advanced by Mr. Lyons for the Cabinet's policy differ from those given previously, while they are also marred by internal contradictions." If the exports of pig iron to Japan constitute "a small and passing phase in our Australian industrial life," argued the *Herald*, how could this comparatively trivial amount of pig iron exert

<sup>52</sup> *Iron and Steel Fortnightly*, issued by U. S. Department of Commerce, August 31, 1938.

<sup>53</sup> *Christian Science Monitor*, February 6, 1939.

<sup>54</sup> *Sydney Morning Herald*, February 15, 1939.

an appreciable influence upon either the stabilization of industry or the volume of employment. "Nor did Mr. Lyons successfully resolve the paradox implicit in banning the export of iron ore while permitting the export of pig iron. If pig iron is a manufactured product, it is also the raw material of many industries including those which should be active in remedying our defense deficiencies. It will be difficult to persuade the public that iron becomes less valuable to Australia after it is refined and made ready for use by our growing secondary industries."<sup>55</sup>

Whatever way one chooses to rationalize the policy of the Australian Government regarding the export of iron in its various forms (though it is perhaps unduly optimistic to suppose that there was reason and consistency in the policy at all), the fact remains clear that the Cabinet has become increasingly anxious to avoid provocation to Japan and increasingly determined neither to take nor allow unilateral action against Japan, especially since the outbreak of hostilities in China. However embarrassing and provocative the iron embargo may have proved to Japan in effect, it was certainly not anti-Japanese in intention. To say that the embargo was not anti-Japanese in intention, is not to say that the course of Japanese policy played no part in its imposition. It can perhaps be best interpreted as a by-product of Australian defense policy, since one of the most striking features of recent Australian defense plans has been the emphasis on the development of secondary industry, and more especially of those strategic industries<sup>56</sup> whose expansion will mean a substantial increase in the domestic consumption of iron ore.

### *Factors Influencing Defense Policy*

An American observer remarked in 1937 that "the (Australian) Commonwealth's interest in her defenses has fluctuated as her relations with Japan have become better or worse,"<sup>57</sup> and this is broadly true at least of the situation before that year. It would be a dangerous oversimplification to interpret recent developments in Australian defense policy on that basis

<sup>55</sup> *Ibid.*

<sup>56</sup> See below p. 109.

<sup>57</sup> Irving S. Friedman, "Australia and Japan" in *Political Science Quarterly*, September 1937, Vol. LII, No. 3, p. 397.

alone. But the apparent ascendancy of militarism in Japan, her embarkation upon a policy of imperialistic expansion, and above all her alignment with the aggressive Fascist powers of Europe have been major factors leading Australia to undertake a new and elaborate program of defense.

As already indicated, the general deterioration of the international situation since 1931, both in Europe and the Far East, created in Australia a sense of insecurity, a complete loss of confidence in the collective system as established in the 'twenties, and considerable doubt as to Britain's ability to spare a naval force adequate for Australia's defense in the event of simultaneous trouble in Europe and the Pacific. The interlocking of European and Far Eastern events was brought home to the Australian people more than ever before by the Abyssinian crisis and the conclusion of the German-Japanese Anti-Comintern Pact. And when Italy, the power most likely to threaten Britain's main lines of communication to the Pacific, adhered to the Pact in November 1937, the situation became even more alarming in the eyes of the Australian public, and the Australian Government. On the whole, it may be said that during the period under discussion developments in Europe did more to create a sense of insecurity in Australia than events in the Far East, partly because the Australian press using London sources gives far more prominence as a rule to European than to Far Eastern news, and partly because events in Europe threatened more and more to tie the hands of the mother country upon whose navy Australia's hopes of security now mainly rested. But on the other hand, it must be emphasized that while the danger to Australian security from aggressive European powers was indirect, the direct "menace" was felt to be Japan. No Australian seriously envisages a German or Italian attack upon Australian territory, but most Australians find it easy to envisage the possibility of a Japanese attack. The importance of European crises for Australia thus tends to be measured in terms of the degree to which they reduce Britain's ability to aid in the defense of Australia. In other words each threat of conflict involving Britain in Europe increases Australia's sense of vulnerability to attack from the hypothetical enemy close at hand. Thus while series of crises in Europe provided the immediate stimuli for a series of moves to strengthen

Australia's defenses, fear of a potential enemy near at hand was the constant factor determining such moves.

It is not possible within the compass of the present study to discuss the justification or lack of justification for assigning to Japan the role of Australia's hypothetical enemy. But the fact remains that rightly or wrongly the Australian public does regard Japan in this light, and since the Australian Government has clearly shown its anxiety to build up Australia's defenses against possible attack from some quarter and since it is almost inconceivable that an attack should come from any other power than Japan, the Cabinet may safely be presumed to share the public view. The growing power of militarist and imperialist groups in Japan, Japan's association with the aggressive Fascist powers of Europe, and the part played by Japan in the destruction of the collective machinery upon which Australia had in no small measure come to depend for her security, all served to revive and confirm the old fear that Japan was a potential "menace" to Australia in the military sense.

The problem of Australian defense, and the bases of Australian defense policy have been discussed more competently and comprehensively elsewhere than they could be in this study and it is not intended here to attempt more than a summary account of the remarkable enlargement of the Australian defense program since the outbreak of the Sino-Japanese hostilities in July 1937—an enlargement which reflects increasing popular and official concern regarding Australian security.

In the Federal election campaign of October 1937, the defense question was made the major issue. The attitudes of the parties were defined during the last session of the old Parliament in August. The Prime Minister, not long returned from an Imperial Conference, emphasized the importance of the decisions of the London Meeting regarding defense and outlined the Government's defense plans for the immediate future. He indicated as the principal objectives of this policy the maintenance of the free passage of seaborne trade, and the prevention of attack upon Australia itself by raid or invasion. To ensure the achievement of these objectives the maintenance and development of the Royal Australian Navy, making possible more effective co-operation with the British navy at Singapore, were essential prerequisites. "It is an unavoidable geographical fact," said Mr. Lyons, "that the first line of defense of the Common-

wealth is naval, and if we expect a British fleet to be based on Singapore as a safeguard to Australia, we must be prepared to cooperate and provide for the squadron necessary in our own waters. With such security provided the enemy is kept at arm's length, our shores are maintained inviolate, and our overseas trade moves freely to its markets throughout the world. In a world armed to the teeth and with small states existing on the sufferance of powerful neighbors and looking for allies, it is not likely that the Australian people will accept a policy of non-cooperation which would deprive them of Britain's powerful aid in such uncertain times as these. Our people are wise enough to realize that our defense rests on two pillars, one of which is our own maximum effort, and the other Empire cooperation."<sup>58</sup>

In its general terms this statement indicated no fundamental changes from previous policy. The main emphasis was, as it had always been, on co-operation with the British navy, and Mr. Lyons, after consultations on defense with authorities in London, was apparently unshaken in the belief, which one of his colleagues had described five months before as the basis of Australian policy, "that the British fleet or some appreciable portion of it will be able to move freely eastwards in case we in Australia get into trouble in our part of the world."

But more significant than the general statement of policy was the announcement during the subsequent debate on the defense estimates, of a substantial increase in defense expenditures during the years 1937-8. These had reached a total of about £A21,000,000 during the previous three years, but the Government now proposed to spend £A11,500,000 in the next single year. From this large increase, it was clear that even though the Government was still convinced of the value of British co-operation as one "pillar" of Australian defense, it had recognized a need for strengthening the other pillar which Mr. Lyons had described as "our own maximum effort."

It is significant that the Opposition in the Federal House raised no objection to the substantial increase in defense expenditure. Their criticism was directed chiefly against the Government's policy of reliance on Britain. The Federal Labor Party had long had doubts about Britain's ability to give substantial aid in the defense of Australia, and as far back as November 1936, the Leader of the Opposition, Mr. Curtin,

<sup>58</sup> *Australian Parliament Debates*, August 24, 1938.

had expressed this doubt in very specific terms: "If an Eastern first-class Power sought an abrogation of a basic Australian policy, such as the White Australia policy, it would most likely do so when Great Britain was involved or threatened to be involved in an European war. Would the British Government dare to authorize the despatch of any substantial part of the fleet to the East to help Australia? . . . The dependence of Australia upon the competence, let alone the readiness, of British statesmen to send forces to our aid is too dangerous a hazard upon which to found Australia's defense policy."<sup>59</sup> Lacking confidence in Britain's ability to give naval assistance to Australia, Labor urged the need of more self-reliant policy with emphasis on strengthening of the aerial rather than the naval arm of the Australian forces.<sup>60</sup>

It is important to notice that Labor was not unanimously in accord with the views of its Federal leader, Mr. Curtin. As often happens, the trade unions adopted an attitude quite different from that followed by the political wing of the movement; in July 1937 the Australian Council of Trade Unions held in Melbourne declared itself opposed to the British and Australian rearmament policies and in favor of a policy of collective security through the League of Nations.<sup>61</sup> The dissident State Labor Party in New South Wales, led by Mr. J. T. Lang, took a much more strongly isolationist line than the supporters of Federal Labor, perhaps because its attitude was still colored by bitter memories of Mr. Lang's struggle against "British financial interests" during his term as State Premier in the depression years.

Nevertheless in the debate of August 24, 1937, and in the election campaign which followed, Mr. Curtin, with the bulk of Australian Labor opinion behind him, repudiated the decisions of the A.C.T.U. and insisted that "no less than the government will we make proper provision to ensure the effective competence of Australia to defend itself against aggression or to repel invasion." He affirmed "the unswerving allegiance of the Opposition to the British Commonwealth of Nations, and also to His Majesty the King," but claimed that a strong self-reliant Australian defense policy would represent "a definite contribu-

<sup>59</sup> *Ibid.*, November 5, 1936.

<sup>60</sup> *Ibid.*, August 24, 1937.

<sup>61</sup> *Melbourne Herald*, July 30, 1937.

tion to the security of the Empire; because Australia is an important part of the Empire. Having regard to the realities of the situation, the imperative obligation has been placed upon the people of Australia not to rely upon assistance from Great Britain, which might or might not be available, but to take the most effective steps to contribute to their own capacity to be self-reliant in this matter." His chief concession to the Lang group was to insist "that in the final analysis this nation shall not be committed to warlike activities outside Australia without the absolute and established consent of the Australian people."<sup>62</sup>

These were the principal points of view advanced during the election campaign of October 1937. Curiously enough public interest in this election, fought mainly round the defense issue, was not very marked. Discussions as to the relative merits of aerial and naval defense were perhaps a little too technical for the ordinary voter, and the issue of co-operation or non-co-operation with Britain was not raised sufficiently clearly, except perhaps in New South Wales, to arouse very heated debate. Nevertheless, imperial sentiment is extremely strong among all classes in Australia and a suspicion, carefully nursed by the government forces, that Labor's policy might mean isolation from Britain may be held to account, in no small measure, for Labor's defeat and the old Government's return to office.

#### *The Defense Program of March 1938*

If public interest in the problem of defense was not particularly strong in the latter part of 1937, it was a good deal more lively when the government, on March 18, 1938, announced the incorporation of the one-year program of defense outlined in August 1937, into a new three-year program of considerably larger dimensions. The circumstances surrounding the resignation of Mr. Anthony Eden late in February, Mr. Chamberlain's statement of March 7 on Britain's defense policy, and above all, the events culminating in the Austro-German *Anschluss*, all aroused tremendous interest in Australia, and viewed in their relation to Australia's own situation they added greatly to the vigor of public and parliamentary discussion of the defense problem. Mr. Chamberlain's definition of the objectives of

<sup>62</sup> *Australian Parliament Debates*, August 24, 1938.

British defense policy,<sup>63</sup> in which he ranked protection of overseas territories third in importance after the security of the United Kingdom itself, and the preservation of essential trade routes, was seized upon by critics of the Australian Government's defense policy as evidence of the impossibility of reliance upon British aid. Mr. Chamberlain's statement that the maintenance of naval bases at strategic points in various parts of the world was not vital was taken by many as an indication that the Singapore base was not considered as vital from the British point of view as it is from the Australian. In short, this statement did a good deal to lessen the satisfaction felt in Australia since the completion of the Singapore base, although even at the time of the official opening of the graving-dock on February 14, 1938, the warning had been clearly given in the Australian press that the immediate value of Singapore could easily be exaggerated. "In the future, if and when Great Britain was able to station a battle fleet permanently in Eastern waters, this base would become a real bulwark. Until then Australians had little reason for complacency."<sup>64</sup> Although Mr. Lyons announced on March 14<sup>65</sup> that Mr. Chamberlain had assured him it would be wrong to assume that his speech on defense on March 8 meant that the United Kingdom Government did not regard the protection of overseas possessions as of first-class importance, and that Singapore was really regarded as a vital point of the whole system of Empire naval defense east of Suez, uneasiness over the whole Australian defense situation was by this time very widespread, and criticism of the Government's new defense program on the ground that it still placed too much reliance on British naval support was now by no means confined to the official opposition.

Details of the new defense program were announced to the nation by the Prime Minister in a radio address which was transmitted by every station in the Commonwealth and came as a climax to weeks of heated controversy, in and out of Parliament. Obviously the Government itself now felt a greater need for strengthening Australia's own defenses than it had done in the previous August. The expenditures on defense contemplated

<sup>63</sup> For a summary of this speech see *Bulletin of International News*, March 19, 1938, Vol. XV, No. 6, p. 11.

<sup>64</sup> *The Round Table*, June 1938, No. III, p. 606.

<sup>65</sup> *Australian Parliament Debates*, March 14, 1938.

during the following three years totaled £A43,000,000 or an average annual outlay of more than £A14.3 million, as compared with £A11.5 million originally proposed for the year 1937-8. Of the three-year total £A18,200,000 was for the maintenance of existing services and £A24,800,000 was for additional new expenditure. Although no new naval construction save of small vessels for use in coast defenses had been contemplated in August 1937, the Government now provided for the purchase of two additional cruisers from the Royal Navy, and although the total allocation for the navy remained larger than that for the other services, £A8.8 million of the "new expenditures" were to go to the air force as compared with £A7.75 for naval expansion. Two small but especially significant provisions in the new program were for the expansion of the domestic munitions industry and for the organization of civil industry in preparation for an emergency; these were the seeds of the vast program of economic preparation for an emergency which was to be launched only a few months later.

#### *Australian Defense Policy After Munich*

The expansion announced in March 1938 was substantial but it was small compared to that which came after the Czechoslovakian crisis in the following September. Inured as the Australian public had become to news of international crises during the years since 1931, they were greatly alarmed by the developments which reached a climax, or perhaps one should say an anti-climax, with the conclusion of the Munich pact. This is not the place for an attempt to describe Australia's reaction during those momentous days in Europe, and it must suffice to say that the public as a whole, whether previously interested in international developments or not, was badly shaken by the nearness of war's approach. But if the Munich pact brought immediately a sense of enormous relief, it certainly brought no sense of long-term security. The Australian Government expressed unqualified approval of the course followed by Mr. Chamberlain but it was obviously no more reassured than the Australian public by his guarantee of "peace in our time." "It is an instinctive hope of the Australian people," said the Minister for Defense on December 6, "that the policy of appeasement initiated by the Munich pact will succeed, but events since Munich have not taken us very far along the road to peace and it is the bitter

truth that at any time in the next few years we may have to resist an attack on our country."<sup>66</sup> These words accompanied his announcement, on December 6, of plans for Australia's defenses which were to dwarf all previous peace-time efforts.

Within three weeks of the Munich settlement the Cabinet was reported to have agreed on the necessity for substantial expansion of the defense program announced in March and it was made known that the defense budget for the next three years would greatly exceed £A43,000,000. No estimates of the extra expenditures had yet been made "but a survey of the works that the recent crisis revealed to be urgent shows that it will be substantial."<sup>67</sup> As early as October 4, the Minister for Defense had announced that the strength of the volunteer militia would be raised immediately from 35,000 to 42,000 and this figure was shortly afterwards raised to 70,000.<sup>68</sup> On October 21, the Prime Minister outlined proposals for an "acceleration" of the defense program to the State Premiers at a meeting of the Loan Council, and presented them with a list of urgent works of a strategic character which they were asked to complete from loan allocations already made for ordinary public works. Hitherto the States had regarded defense as exclusively a Federal responsibility but now their co-operation was sought in such matters as the improvement of ports and docks, the construction of aerodromes and military roads, and the duplication and strengthening of important railways.<sup>69</sup> Consideration was also given to the planned development of industry along strategic lines. Although the State Premiers refused to assent immediately to the establishment of an Advisory Committee on Defense, on the ground that before they subordinated state interests to the national need, they were entitled to satisfy themselves that the common resources would be wisely husbanded,<sup>70</sup> nevertheless, they agreed to authorize a new loan of £A4 million for defense purposes, and a motion was carried affirming the principle of co-operation between the Commonwealth and the States.<sup>71</sup> In March 1939, the Premiers agreed to the establishment of a national defense council consisting of the Prime Minister and themselves; the

<sup>66</sup> *Sydney Morning Herald*, December 8, 1938.

<sup>67</sup> *Ibid.*, October 18, 1938.

<sup>68</sup> *Bulletin of International News*, October 22, 1938, Vol. XV, No. 21, p. 35.

<sup>69</sup> *Sydney Morning Herald*, October 18, 20, 23, 1938.

<sup>70</sup> *London Times*, January 2, 1939.

<sup>71</sup> *Bulletin of International News*, November 5, 1938, Vol. XV, No. 22, p. 15.

duties of this council were to include the classification of projected public works, according priority to those with defense value, and an examination of the adequacy from the strategic viewpoint of all existing public utilities.<sup>72</sup> In November the first estimates of the extent of the increase in the three-year defense budget were made public. Instead of the £A48,000,000 proposed in March, the Government was now reported to be contemplating expenditures amounting to more than £A60,000,000.<sup>73</sup> The figure mentioned definitely on December 6 when the new program was described in detail by the Minister for Defense was £A63,000,000.<sup>74</sup> By February 1939, as a result of extensions of the program and increases in the cost of certain items, the estimate had risen to £A70,000,000 and there were indications that even then the limit had not been reached.<sup>75</sup> Comparison of this figure with the £A21,000,000 spent by the same Government in the three years from June 30, 1934 to June 30, 1937, gives an indication of the intensification of concern regarding Australia's security in a disordered world.

Only a few of the main features of the post-Munich Australian defense plans need be mentioned here to indicate their scope. According to Government spokesmen, the basis of the policy was still to be co-operation with Britain, but the program announced in December was of such dimensions as to suggest that more than ever before the Government felt that Australia must be prepared to rely on her own strength rather than on that of the British navy. In fact the new program seemed to envisage not only a large measure of self-reliance on Australia's part but also a positive contribution by Australia to the defense of imperial interests in adjacent parts of the Pacific area through the provision of munitions and other supplies. An effort was obviously to be made to transform Australia from an imperial liability to an imperial asset in matters of defense.

As already mentioned, the military section of the new program involved doubling of the strength of the volunteer militia, and the launching of a vigorous recruiting campaign to this end. By the end of March 1939, this objective had been attained,<sup>76</sup>

<sup>72</sup> *New York Times*, April 2, 1938.

<sup>73</sup> *Sydney Morning Herald*, November 24, 1938.

<sup>74</sup> *Ibid.*, December 7, 1938.

<sup>75</sup> *Ibid.*, February 18, 1939.

<sup>76</sup> *New York Times*, April 2, 1939.

but Mr. W. M. Hughes, Minister for External Affairs and leader of the campaign, had already announced that it was intended to continue recruiting until the militia strength reached 82,000.<sup>77</sup> In spite of strong pressure in favor of the reintroduction of compulsory training, some of it from within the Cabinet, the Government persisted in its adherence to the voluntary system, so far as the militia was concerned. However, at the end of March, the Cabinet announced its decision to institute a compulsory national register of men between the ages of 15 and 64 in order to facilitate the organization of skilled labor in the event of an emergency and to avoid overlapping and misplacement of men.<sup>78</sup> The Prime Minister made it quite clear, however, that registration did not imply an obligation to serve in the armed forces, in industry or in agriculture. It was also announced at the beginning of March that the Cabinet, on the recommendation of the Inspector-General of the Military Forces, would increase the strength of the permanent forces to 10,000.<sup>79</sup> This proposal involved the multiplication of the 1938 establishment more than fourfold by 1944, since enlistment was to proceed at the rate of about 2,000 a year.

The post-Munich defense plan also involved an important expansion of the air force. For some years plans had been under way for the establishment of the manufacture of military aircraft in Australia, but these were greatly speeded up after September 1938. The schedule for the domestic production of aeroplanes announced by the Prime Minister on March 29, 1939 provided for the production of the first complete planes in 1940, and the completion of the first order for 400 by 1942.<sup>80</sup> In the meantime large numbers of complete planes were being purchased from Britain and the United States. By the end of March, the number of first-line planes had been increased from 96 to 132, and the Prime Minister announced that the Government planned to increase the permanent strength of the air force by 950 planes yearly, bringing the total to 5,600 by June

<sup>77</sup> *Sydney Morning Herald*, February 21, 1939.

<sup>78</sup> *New York Times*, March 30, 1939. Plans had been announced earlier for a "national register" on a voluntary basis.

<sup>79</sup> *Melbourne Argus*, March 1, 1939; permanent forces in 1938 numbered 2,300. This decision was revoked by the Menzies Government in August 1939. As an alternative it was decided to "intensify" militia training.

<sup>80</sup> *New York Times*, March 30, 1939.

1941.<sup>81</sup> The Government's intention to double the strength of the air force personnel within 16 months was announced by the Minister for Defense in February. One extremely important feature of the plans for the manufacture of aircraft in Australia was that it was not merely intended to produce planes for domestic use; an expansion of production was envisaged which would enable Australia to help supply the needs of Britain herself, and more especially those of the Royal Air Force in the Far East. On this aspect of the plan there was the closest consultation with the British authorities. Early in the new year a strong British mission visited Australia to discuss the question of aircraft construction.<sup>82</sup>

Parallel to the expansion of the military and air force program there was a notable development of naval plans. In addition to the purchase of two cruisers as announced in March 1938, the Government declared its intention, in December 1938, to commence early in the new year the construction in Sydney of two destroyers and twelve motor torpedo-boats, all scheduled for completion by the middle of 1941. Provision was also made in the December plan for the construction of a naval dock capable of accommodating a capital ship.<sup>83</sup> Australia had no battleships of her own and this proposal implied an assumption that British capital ships would be available for the defense of Australia in the event of emergency.<sup>84</sup> Apparently the possibility of adding a battleship to the Australian Navy had been considered but reluctantly abandoned when it was learned that such a vessel together with the necessary escort ships and equipment would cost £A16,000,000 and could not be obtained in any event before 1943. A dock to service British capital ships was the next best thing.<sup>85</sup> Other items in the naval part of the new defense program included an increase of personnel from 4,550 to 6,770 by 1940-1, establishment of the manufacture of mines

<sup>81</sup> *Ibid.*, March 25, 1939.

<sup>82</sup> It consisted of Sir Donald Banks, Permanent Under-Secretary for Air, Air-Marshall Sir John Longmore, and Sir Hardman Lever, the leader of a previous mission of a similar character to North America, and it consulted in Australia with a committee comprising the Minister for Defense, Brigadier Street, the Chairman of the Advisory Panel for Industrial Organization, Mr. Essington Lewis, and Sir Colin Frazer, managing director of Broken Hill Associated Smelters. *London Times*, January 9, and January 18, 1939.

<sup>83</sup> *Sydney Morning Herald*, December 7, 1938.

<sup>84</sup> *London Times*, December 7, 1938.

<sup>85</sup> *Sydney Morning Herald*, December 7, 1938.

in Australia, and strengthening of coast and harbor defense, building up of reserves of fuel and munitions, and the extension and improvement of victualling, munitions supply and repairing facilities in a number of ports, especially at Darwin. Darwin, said the Minister for Defense, "is the opposite end of the archway of which Singapore is the other pillar." As in other parts of the defense program much emphasis was laid on co-operation with Britain. The Minister's reference to Darwin was only one concrete evidence of this. Others were the proposal that Australia should supply mines and docking facilities for British ships operating in Far Eastern waters and the invitation to an Admiralty surveyor to advise on the construction of the Sydney dock. "Our defense problem as a small nation," said Brigadier Street, "is insoluble without Empire cooperation. We can share in the common naval defense of the Commonwealth, but we cannot provide naval forces sufficient for our security. We can provide naval forces sufficient for local defense as a deterrent to aggression and as a means of holding out until support is forthcoming, but we cannot defeat a powerful aggressor single-handed."<sup>86</sup>

So important had this economic part of the defense program become by April 1939, that in the reorganization of the Government which followed the death of Mr. Lyons and the secession of the Country Party from the coalition cabinet which he had led, an entirely new department—to be known as the Ministry of Supply and Development—was created to carry out the vast plan. The new portfolio was assigned to Mr. R. G. Casey, experienced senior minister and former treasurer, who declared on assuming office that his task would be "to put Australia in a position to be able to withstand a siege" by making it "industrially self-supporting and quite independent of imported materials."

Plans for the manufacture of aircraft and naval mines mentioned above were only two special phases of a general scheme for the expansion of munitions manufacture in Australia up to a point at which Australia would not only be virtually self-sufficient in respect of munitions but even able to serve as a major arsenal for British forces in Eastern Asia and the South Pacific. Australia had long been able to manufacture her own small arms, but the new plans provided for the large-scale pro-

<sup>86</sup> *Ibid.*

duction, partly in Government factories and partly by private firms, of high explosives, shells, fuses, anti-aircraft and machine guns, gas-masks, artillery instruments, mines, depth-charges, armor plating, and various other essential munitions supplies.

But stimulation of the munitions and armaments industries was itself only one phase of what was in many ways the most novel and significant part of the whole new defense program, namely, the effort to organize the whole Australian industrial structure in such a way as to ensure that in time of crisis Australia is economically prepared. All primary and secondary industry was brought within the scope of the Government's plan for economic preparedness, the objects of which were defined by the Minister for Defense as "the organization of man-power and women's voluntary efforts; the regulation and control of primary production in an emergency; industrial mobilization of secondary industries in an emergency; Commonwealth and State cooperation."<sup>87</sup> The measures adopted for the achievement of the first and last of these objectives have already been mentioned, the most important being the establishment of a national register and the interstate defense council. As a first step in the regulation and control of primary industry, an exhaustive preliminary study of possible methods of approach to the problem was entrusted to the Department of Commerce. This study involved consideration of "plans relating to the various classes of primary production, study of supply and demand, the machinery for marketing both in Australia and abroad and the safeguards necessary to ensure equitable treatment both to producer and consumer, the method of financing production and marketing, storage of products, cargo space in oversea ships."<sup>88</sup> An important practical step in the same direction was announced by the Cabinet early in February when it decided to set in motion machinery to make Australia a storehouse to feed her own people and to help to feed the people of Great Britain in the event of war. "An essential feature of the scheme will be the extension of storages, particularly in the country districts which would be reasonably free from attack . . . and special attention will be paid to distribution in the event of dislocation of the export trade in war time."<sup>89</sup> In regard to secondary indus-

<sup>87</sup> *Ibid.*

<sup>88</sup> *Ibid.*

<sup>89</sup> London *Times*, February 6, 1939.

try an advisory panel of officials and industrialists were asked in December to study "the measures necessary for industrial mobilization of secondary industry beyond those contemplated by the principal supply officers' committee, which relates to service requirements only."<sup>60</sup> In the case of key industries such as the manufacture of aircraft, automobiles and munitions, the Government offered its direct assistance in the form of subsidies, large contracts, and the provision of some equipment, but in the case of other industries the new measures involved assistance of an indirect character and, more especially, preparation for the co-ordination of resources in the event of an emergency.

In the economic, as in the military aspects of the new defense plans, co-operation with Britain was heavily stressed. The scheme for increased storage of primary produce formed part of an Empire-wide plan to maintain food supplies in an emergency. The imperial significance of the development of aircraft and munitions manufacture in Australia has already been mentioned, and the British Government has clearly stated its recognition of the necessity for building up secondary industry in the dominions even though in some cases there might be competition with the industries of the United Kingdom itself. Mr. Malcolm MacDonald stressed this point of view on December 21, 1938, when he declared that it was useless to talk about developing the overseas Empire unless its secondary industries were steadily developed. He added that "the increased prosperity and power of the Dominions is perhaps the best way of augmenting the strength of Britain itself. . . . It seems to me not merely an essential but the principal part of the policy of Dominion development, that the secondary industries of the Dominions should be steadily expanded."<sup>61</sup>

In the limited space available it has only been possible to give a very sketchy and inadequate outline of the post-Munich defense plans of the Australian Government, but sufficient has been said to indicate their scope. The difficulty of describing them has been greatly enhanced by the fact that they reached into every phase of the national life and more still by the fact that they have been modified from time to time, as investigation has revealed new needs and successive international crises since Munich have increased the sense of imminent danger which is

<sup>60</sup> *Sydney Morning Herald*, December 7, 1938.

<sup>61</sup> *Ibid.*, December 23, 1938.

their very basis. In implementing the new plans the Government has left no stone unturned in its effort to rouse the public to a sense of the urgency of the situation; the press and the radio have been used on an unprecedented scale in the effort to win public co-operation, and the recruiting campaign for militia volunteers has been accompanied by a fanfare of publicity such as Australia has not seen since the days of the World War.

### *Public Attitude on Defense*

The success of the recruiting campaign in doubling the militia strength within seven months may be taken as one indication of the extent to which the public has responded to the Government's appeal for co-operation, although on the other hand, an internal loan for defense of £A8,500,000 which the Government sought to raise in February 1939 was badly under-subscribed,<sup>92</sup> and there was bitter resistance especially on the part of the trade unions to the compulsory national register. The Government's policy has not been put into effect without a good deal of adverse criticism from various quarters, though the objections raised have been to the methods rather than to the objectives of the policy. When the £A63,000,000 estimate was announced in Parliament early in December 1938, the Leader of the Opposition actually supported the decision to undertake this large expenditure, and expressed the opinion that the details of the new program conformed to those of a plan which he himself had put forward a few weeks earlier; but he questioned the wisdom of resorting to overseas borrowing in arranging to finance the scheme.<sup>93</sup> However, some of Mr. Curtin's supporters even in Parliament seemed not to share his general approval of the Government's December program and declared themselves in favor of a wholly independent policy of local defense.<sup>94</sup>

Some trade union officials expressed approval of the large-scale measures announced in December, and more especially of the proposal to increase naval construction and enlarge docking facilities in Australian ports, since "organized labor took the view that defense measures should serve an economic purpose

<sup>92</sup> National Bank of Australia Ltd., *Monthly Summary of Australian Conditions*, March 10, 1939, p. 3.

<sup>93</sup> *Sydney Morning Herald*, December 8, 1938.

<sup>94</sup> *Ibid.*

as well as provide for national security." Other trade unionists further to the Left, were still critical of the Government's policy on broad political grounds. Their attitude was summed up by Dr. Lloyd Ross of the Australian Railway Union late in November, when he said: "If we believe that the Lyons Government is cooperating in a foreign policy which weakens democracy, strengthens fascism and places Australia at the disposal of the policy of appeasement then we must oppose the defense plans of the Lyons Government. Otherwise, we become identified with the very policy that we regard as a menace to Australian life and liberties. No force of arms can protect Australia if Australia is to be manoeuvred into the same position as was Czechoslovakia." "If . . . the Munich agreement removed the possibility of immediate war, why the necessity for the hysterical demand to arm as quickly as possible?" asked Dr. Ross. "If there is no immediate danger of attack, then are we not justified in believing that the war discussions are aimed at producing an atmosphere suitable for political intrigue or industrial conscription?" This group also questioned the basis of the Government's appeal for "national unity." No real unity was possible except as part of "a comprehensive social plan." "We regard it as futile to discuss national unity unless we have some indication from responsible people that side by side with the restrictions will proceed the promotion of justice and equality, which in their turn would release the energy of some national plan. . . . Labor cannot allow itself to be crippled by identification with anti-Labor governments which are pursuing a Fascist policy in international affairs, but it will coöperate with all forces in the community who are prepared to base a defense system on the well-being and freedom of the Australian people."<sup>95</sup> The extreme division of opinion in the ranks of labor on defense questions can best be indicated by contrasting this Left-wing trade union view with the advocacy of compulsory training for home service by the political Labor group in Tasmania.

Despite diversity of opinion among various groups as to the merits of the Government's policy, it is quite clear that for reasons already mentioned the Australian people were swept during the year after Munich by a wave of fear and the majority undoubtedly welcomed measures calculated to ward off or lessen

<sup>95</sup> Lloyd Ross, "Defense of Australia: The Labor Party View" in *Sydney Morning Herald*, November 24, 1938.

the danger that was felt, rightly or wrongly, to be imminent. The fear of external attack became strong enough to make most Australians accept with resignation a greatly increased burden of taxation, and an unprecedented degree of censorship and regimentation. Opposition to military conscription remained strong, and there was widespread resentment at the modification and postponement of a national insurance scheme which was originally to have come into operation in 1938 but which the government now claimed must take second place to the defense program. One commentator on the manuscript of this study pointed out that the proposed expenditure on defense of £70,000,000 is only 3 per cent of the probable national income for three years, a figure not so high, by comparison with the corresponding figure for other countries, as to justify scrapping of national insurance. There are also a few who have seen in the strong move for conscription, the imposition of compulsory national register, the delay in the national insurance program, the censorship of criticism of the Government's foreign policy and even of "provocative" criticism of the policy of Fascist powers, evidences that conservative forces are using the fear of war to strengthen their own position in the community. But the voices of those who warn the Australian public to beware of the danger within tend to be drowned in the clamor for protection against the danger from without.

There can be little doubt that certain groups opposed to the national insurance scheme welcomed the excuse offered by the cost of the defense program for pushing social legislation at least temporarily and perhaps permanently into the background. Moreover the Government has shown itself extraordinarily sensitive to criticism, especially of its conduct of foreign affairs and it has shown great alacrity in the suppression of such criticism, particularly over the radio, on the grounds that a state of national emergency exists. But while there are indications that certain conservative groups are using the present crisis to strengthen their own domestic position politically and economically, it may safely be said that such considerations are secondary to a genuine belief in the reality and immediacy of the threat to Australia's security.

It seems clear too that the Government in making its defense plans was influenced by the belief that Australia was in imminent danger, not merely of being drawn into a European conflict

as it had been in 1914, but of having to face an attack upon its own soil. A large proportion of the defense measures adopted were obviously designed to provide protection against such an attack. "For the first time in its history," said Mr. Lyons, in a recruiting speech in Adelaide on December 14, 1938, "Australia might be in the war zone";<sup>98</sup> "the bitter truth is," he declared on another occasion, "that at any time within the next few years we Australians may have to resist an attack on our country. . . . Would that you knew, while there is yet time, on what a slender thread the peace of Australia depends."<sup>99</sup> "A policy is being hatched abroad," said Mr. Hughes at the end of January 1938, "which may shake Australia to her foundations."<sup>100</sup> The precise nature of the danger against which precautions were considered necessary was never clearly indicated and all "the grave warnings from high places" that the Australian public received were couched in such general terms as to irritate some who felt that the Government should take the people more into its confidence. Nevertheless, there can be little doubt that the Government envisaged the possibility of Australia's involvement in a war in the Eastern Hemisphere as an immediate consequence of conflict in Europe. In a radio address on December 5, the Prime Minister attached especial significance to the fact that two great powers, Japan and the United States, lay outside the British naval cordon round Europe,<sup>101</sup> and in a broadcast on February 19, 1939, he referred specifically to the situation in the Far East as "a constant source of anxiety . . . to us in Australia," particularly in view of the "sharp difference of opinion between Japan on the one hand and Great Britain and the United States on the other, regarding the treatment of British and American interests in China."<sup>102</sup> Anxiety to avoid even the semblance of provocation to a powerful neighbor made any more specific definition of the nature of "the imminent danger" impossible for those whose responsibilities weighed heavily upon them, but there can be little doubt that the Government's defense policy was inspired by the same fear of Japan as a potential aggressor which had been so clearly expressed by the water-

<sup>98</sup> *Sydney Morning Herald*, December 15, 1938.

<sup>99</sup> *Bulletin of International News*, December 17, 1938, p. 12.

<sup>100</sup> *Bulletin of International News*, February 11, 1939, p. 14.

<sup>101</sup> *Sydney Morning Herald*, December 15, 1938.

<sup>102</sup> *Ibid.*, February 20, 1939.

side workers in justification of their refusal to load pig iron cargoes for the East,<sup>101</sup> and equally clearly implied in the statement on defense by the Leader of the Opposition, Mr. Curtin, back in November 1936, when he conjured up the possibility that "an Eastern first-class Power" might take advantage of a European war to seek the abrogation of the White Australia policy.<sup>102</sup>

### *The Island Dependencies*

One aspect of the new defense policy not yet discussed, but too important to ignore, is its concern with Australia's island dependencies to the North. Much more is involved here than the mere strengthening of armaments and defense personnel. As in the Commonwealth itself, the new program is likely to mean wholesale political and economic reorganization. Considerations of strategy have always been the prime determinants of Australian policy with respect to the adjacent island territories, but in the new situation the Territory of Papua, which is under full Australian sovereignty, and the Mandated Territory of New Guinea, have assumed a far greater importance than ever before.

In November 1938, Wing-Commander Hewitt, a senior officer of the Royal Australian Air Force, urging the establishment of bases for flying-boats in the island to the north, declared that "the most likely direction of any attack upon Australia is from the north, most probably from the northeast. Therefore, a knowledge of the islands within this zone is essential to the planning of any defense scheme." He visualized an elaborate system of "track searches" among the islands, the object being to "spot" the movements of an enemy approaching the coast of Australia by sea. "To obtain early information of the approach and components of an enemy's forces is the first and vital step to success, particularly in modern warfare, where action is so swift and the principle of surprise is at such a high premium. To us in Australia it might be a matter of life and death. . . . Whoever commands New Guinea is master of Australia."<sup>103</sup>

That the Government accepted this view of the importance of the dependent territories became clear when, in describing the

<sup>101</sup> See above p. 82.

<sup>102</sup> See above p. 101.

<sup>103</sup> Address to United Services Institution, *Sydney Morning Herald*, Nov. 24, 1938.

new defense plans a month later, the Minister for Defense informed Parliament of the Government's intention "to establish at Port Moresby a base for mobile, naval and air forces. The fixed defenses will be provided by the army. The Air Force will station flying-boats there, and the base will provide a center from which cruisers and small craft can operate."<sup>104</sup> This move, following closely the announcement that a first-class aerodrome would be constructed on Thursday Island, in Torres Strait, indicates an important change in Australian policy respecting the dependencies. In the past it had been felt to be sufficient that, through Australia's maintenance of effective legal occupation of the territories, foreign powers were precluded from taking them over and using them as a base of attack against Australia. Consequently no attempt had been made to fortify the islands or to assign them any positive role in the defense of Australia. The terms of the C-class mandate render illegal any fortification of the Territory of New Guinea, but even though Australia is perfectly entitled to use the Territory of Papua for military purposes, prior to 1938 nothing more formidable had been established in either territory than native constabulary forces numbering a few hundred men armed with rifles. This state of affairs is now to be radically changed, and the islands under sovereign control are to be used in a positive way in the defense of Australia, although the territories held by mandate are to remain unfortified.

A very brief review of Australian policy respecting her island territories will serve to place this new development in defense policy in its proper perspective, and will indicate how, quite apart from considerations of purely military strategy, the dependencies have come to assume a new importance for Australia, both domestically and as a factor in her relations with the Far East and the rest of the world.

The dependent areas under Australian control fall into two distinct parts. The Territory of Papua, consisting of the south-eastern section of the island of New Guinea and smaller islands nearby, has been a British possession since 1888 and an integral part of the Australian Commonwealth since 1905. The region known as the Mandated Territory of New Guinea consists of the northeastern section of the islands of New Guinea, islands of the Bismarck Archipelago, and the northern part of the Solomon

<sup>104</sup> *Sydney Morning Herald*, December 7, 1938.

Group, all of which were under German control until occupied by Australian forces in 1914, and all of which are now administered by the Australian Government under a mandate.

Some account has already been given of the circumstances under which Mr. W. M. Hughes, on behalf of Australia, accepted the former German territories as a C-class mandate, at the Paris Peace Conference.<sup>105</sup> It will be remembered that Australia was earnestly desirous of annexing these territories outright and that the formula for the C-class type of mandate was devised as a compromise to satisfy Mr. Hughes. It gave the mandatory power the right to bring the territory within its tariff system, and to control the immigration of aliens. Under these conditions the mandate for New Guinea was accepted. Despite the obvious advantages, from the point of view of economy and efficiency, of incorporating the newly acquired mandate with the Territory of Papua, already under Australian control and long managed by seasoned officers with conspicuous success, the Australian Government in deference to the theory of trusteeship decided to administer the two territories separately. The administrations have remained distinct ever since.

When control of the new territory had been duly acquired and the first flush of imperialist enthusiasm had died away, Australian interest in the mandate tended to die away too; the military officials to whom the administration was at first entrusted were not conspicuously successful and economic development was slow. The mandate came to be regarded in many quarters as an economic liability rather than an asset. Australia, as a young and relatively undeveloped area itself, seemed to lack the resources both of capital and personnel required to develop "colonial dependencies."

The discovery of rich alluvial gold deposits and the rush to the goldfields, especially after 1926, did much to revive Australian interest in the territories and to bring home to the Australian Government their potential economic value. Interest was further enhanced by the dramatic development of air communications first between the coastal ports and the gold-fields in the interior, and then between New Guinea and the Australian mainland. In a land so rough and primitive as to render transportation by land painfully slow and difficult, the airways have played an indispensable part, and the triumph of

<sup>105</sup> See above p. 18 *et seq.*

the airplane over the jungle has caught the popular imagination in the most striking fashion.

More recently the prospect of discovering oil in New Guinea has brought the country even further into the foreground and given the two dependencies a vastly greater potential importance for Australia than ever before. The search for oil dates back to pre-war times and has been carried on intermittently ever since.<sup>106</sup> The first boom came in 1911 when a prospector found traces of oil near the Gulf of Papua but interest soon subsided when further investigation yielded no worthwhile results. About the same time German officials found seepages at various points in the Sepik River district, but plans to carry the survey further were interrupted by the outbreak of war. In 1920, the search was renewed by surveyors of the Anglo-Persian Oil Company who reported that certain areas in New Guinea bore a marked geological similarity to the oil-producing regions of Sumatra, and that chemical analyses of seepages indicated a very superior quality of mineral. From 1921 to 1923, the Australian Government assisted the Anglo-Persian Company with subsidies, and similar help was given again between early 1928 and October 1929. Several drills were put down, but work was abandoned when the subsidy was discontinued. Other companies continued the search spasmodically but it was not until 1936 that the effort to find oil was resumed, on a larger scale than ever before. Since that year permits to survey large areas both in Papua and the Mandated Territory have been obtained by most of the world's large oil interests as well as a number of independent Australian companies. The growing realization of Australia's vital need of an assured supply of oil and the increasingly hopeful results of the surveys carried out in New Guinea have led the Government since 1936 to renew its subsidies for approved drilling plans, and in 1938 the petroleum ordinances of both territories were amended to provide for the issue of prospecting permits for much larger areas than had previously been allowed. At the same time the laws requiring that two-thirds of the capital of any oil company operating in the territories must be British were relaxed so as to open the door a good deal wider than before to foreign interests.<sup>107</sup>

<sup>106</sup> See *New Guinea Handbook, 1937*, and *Far Eastern Survey*, May 12, 1937, Vol. VI, p. 118.

<sup>107</sup> *Christian Science Monitor*, December 12, 1938.

The result has been a very great intensification of the search for oil in both the Australian parts of New Guinea, and the Government is now eagerly awaiting the results. The strong possibility that oil will be found has enormously enhanced not only the economic but the strategic importance attached to the dependencies. Australia has no important oil deposits of her own on the mainland and she is now looking hopefully to New Guinea to supply the deficiency.

In addition to encouraging the search for oil the Government announced late in November, 1938, that it would establish a special committee to make a general economic survey of the territories and advise the Government as to the best ways to foster the development of primary industries, and "encourage the growing of tropical crops, timber-cutting and reafforestation."<sup>108</sup>

In the political as well as in the economic field the Australian Government is planning what may best be described as a "New Deal" for the dependencies. The general control of the territories was transferred in November 1938 from the Minister for External Affairs, Mr. W. M. Hughes, to an Assistant Minister attached to the Prime Minister's department, Mr. E. J. Harrison. The appointment of one member of the Cabinet to devote his whole time to this work was in itself a significant indication of the new importance attached by the Government to the dependent territories. But the reorganization went much further. Immediately upon assuming his new duties Mr. Harrison announced that the Government was considering the amalgamation of the administrations of the Territory of Papua and the Mandated Territory of New Guinea, with one capital at Port Moresby.<sup>109</sup> Port Moresby is at present the capital only of the Territory of Papua. Until recently the administrative center of the Mandated Territory was located at Rabaul on the island of New Britain, but because of its proximity to an active volcano, which erupted vigorously in 1937, almost destroying the town and the harbor, it was decided to seek a new and safer site. Various suggestions were made and after months of controversy and in the face of strong opposition both in the Territory and in Parliament Mr. Hughes chose Salamaua, a rather insalubrious spot on the mainland of New Guinea. This selection was ex-

<sup>108</sup> *Pacific Islands Monthly*, December 15, 1938.

<sup>109</sup> *Sydney Morning Herald*, November 28, 1938.

tremely unpopular in many quarters and its opponents refused to regard the question as settled. The matter was vigorously debated in Parliament in September, 1938, and two months later came Mr. Harrison's announcement that Salamaua was merely to be the temporary capital pending the completion of arrangements for the concentration of the two administrations at Port Moresby.<sup>110</sup>

But the decision to amalgamate the two administrations with a common capital at Port Moresby was far more than a mere compromise solution of the controversy over the site to replace Rabaul. It is true that this was a solution which had been suggested, and the move was in line with the recommendations of many experts submitted at various times since Australia first assumed control of the former German colony. But the Government had always refused to consider such an amalgamation on the ground that it would be contrary to the terms of the mandate. There can be no doubt that the complete reversal of this view involved in the decision announced in November 1938 was not merely the result of a desire to settle the problem of choosing a new capital for the mandated territory; much more important was the desire to strengthen the whole administrative structure of the dependencies as a measure of defense. In this connection one very important consideration was that while there are legal difficulties in the way of fortifying any site within the area held under mandate, Australia is perfectly free to fortify territory under her sovereign control. A new joint capital at Port Moresby would thus be safer from foreign attack as well as from the disturbing influence of live volcanoes.

The Government is not shutting its eyes to the legal difficulties in the way of administrative amalgamation and before the decision is implemented a specially constituted committee of experts on international law is to consider the detailed problems involved and especially those arising from the obligations and implications of the mandate. In the light of this committee's advice the Government will take steps to bring about "the largest practicable measure of 'unified control.'"<sup>111</sup> From the terms of the announcement it is clear that something a good deal short of annexation of the territories held under mandate is envisaged. Residents of Rabaul in November 1938, alarmed by Germany's

<sup>110</sup> *Pacific Islands Monthly*, December 15, 1938.

<sup>111</sup> *Ibid.*

demands for the restoration of her former colonies, were reported to be arranging a petition to the Commonwealth Government urging outright annexation, but a substantial body of opinion in Australia has always opposed such a step as an unnecessary defiance of the mandate principle. However, the terms of the C-class mandate specifically permit the administration of the territory as "an integral portion of the Commonwealth," and African mandatory powers have in fact integrated the administrations of their colonial and mandated territories much more closely than Australia has hitherto done. A considerably greater degree of unified control in New Guinea than exists at present would not, therefore, be unprecedented, and the Australian Government has shown by the caution with which it is moving in this direction that it has no intention of infringing the terms of its mandate.

On the other hand, the Australian Government has repeatedly voiced its determination never to surrender the rights of control over New Guinea which it enjoys as a mandatory power, and the attitude of Japan in respect to her mandated islands has strengthened this determination. Even those who oppose annexation support the Government in its insistence on Australia's right to retain control of the Territory. The attitude implied in frequent statements by government leaders has been well summed up by the *Sydney Morning Herald* whose views in this respect may be regarded as fairly representative of the predominant opinion in Australia: "Whatever Germany's attitude toward New Guinea may be, it must long ago have abandoned the hope of regaining the Mariana, Caroline and Marshall Islands from Japan. Tokyo intends to return these mandated islands neither to Germany nor the League of Nations. Japan's apparent repudiation of the last vestiges of the League's authority over the islands renders its occupation of them indistinguishable from ownership, and it will be remarkable if it does not deal with them accordingly. Australia holds New Guinea in trust from the League, and claims no more than the absolute right to the retention of the mandate—a retention vital to its security—so long as it faithfully discharges the duties of its trusteeship. Obviously, however, a new situation would arise if Japan were formally to annex and fortify the islands north of the Equator."<sup>112</sup>

<sup>112</sup> Quoted in *Christian Science Monitor*, December 12, 1938.

The reference in this statement by the *Sydney Morning Herald* to the policy regarding the Japanese mandated islands north of the equator is particularly significant not only in its relation to the present attitude of Australia toward her own mandated territory, but also because it draws attention to the importance of the island dependencies as a factor influencing relations between Australia and Japan. Ever since the days of the Paris Peace Conference, Australia has watched with the greatest interest the course of Japan's policy in the former German territories which she now controls. Rumors that these islands were being fortified, whether groundless or not, have given them an especially sinister significance in the eyes of the Australian public. Alarmists never tire of pointing out that Japan's control of those islands brings her within 1,500 miles of Australian territory, and they allege that with the development of the technique of aerial warfare Japan is thus brought within striking distance of Australia. To a public traditionally suspicious of Japan these are disturbing thoughts and they became the more disturbing when, as a result of the Anti-Comintern Pact and its attendant rumors, the long-standing fear of the Japanese "southward advance" was linked up with the more recent fear that Nazi Germany might demand specifically the restitution of the territories which Australia took from her in 1914.

The Government is better informed than the public and it probably thinks these things through more clearly, but it is difficult not to suspect that the vague, ill-defined fears which trouble the public mind have also influenced the Government not only in embarking upon the most elaborate and expensive defense program ever undertaken in Australia, but also in launching a "new deal" for its island dependencies.

#### *Interest in Neighboring Territories*

The growth of Australian interest in the Commonwealth's own dependencies has been accompanied by an increase in the amount of attention given to the neighboring territories under British and foreign control. A conference of representatives of the Australian, New Zealand and British Governments met in May 1939 at Wellington, which in secret session planned the co-ordination of economic and strategic measures for the defense not only of the two Pacific Dominions but of the adjacent colo-

nies and protectorates of the mother country as well. Unofficial reports that New Caledonia and the other French possessions in the Western Pacific were to be brought within the framework of the defense organization set up by the Wellington conference can scarcely be doubted since it is inconceivable that close Anglo-French co-operation should not extend to this area. Time was when Australians feared the advent of the French in New Caledonia—an island lying less than 1,000 miles from the coast of Queensland, and even in the nineteenth century regarded as of great strategic significance to Australia. Now modern aviation has vastly enhanced that significance and Australia would view the transfer of the island to any other power than France with the gravest concern. Moreover the nickel and chromium deposits of New Caledonia give it an even greater significance for Australia now that the Commonwealth is launching a program of large-scale expansion of its heavy industries. Even more important from the Australian point of view than the islands in the southwestern Pacific are the colonial territories, British, French and Dutch, which lie to the North.

The conference of British and French defense experts held at Singapore in June 1939 to discuss matters of common concern to the two empires was watched with keen interest in Australia and the Commonwealth Government was represented directly at the meetings by Sir Ragnar Colvin, First Naval Member of the Australian Naval Board. Reports that unanimous agreement had been reached on all matters of policy and Far Eastern strategy were received in Australia with the deepest satisfaction. Significant among the subjects mentioned as having been considered at the Singapore conference was the position of Netherlands India. Forming as it does part of the great network of islands which links Australia to the Asiatic mainland, the Dutch island empire occupies a position of unique strategic importance for Australia. But geographical position is only one of many factors which give Netherlands India a special significance for Australia. Mention has already been made of Australia's increasing dependence on the Dutch possessions for supplies of oil, and the Netherlands India market for Australian foodstuffs, and perhaps in the future for Australian manufactured goods, is one of considerable importance.

Traditionally an open field for trade, investment and even migration from all foreign countries, Netherlands India long

depended for its security upon the fact that its resources were freely accessible to all the powers alike and that therefore none of them seemed likely to attempt political or military penetration of the islands. But like Australia, the Dutch empire felt the strong impact of Japan's amazing commercial expansion during the difficult years of the world depression. The effect of that expansion was less beneficent in the case of Netherlands India than it had been in that of Australia and the blow to the interests of the mother country was considerably more severe. Moreover the same evidences of imperialist ambition on the part of Japan which so alarmed Australia struck fear into the hearts of those who controlled Netherlands India. The result has been a partial closing of the traditionally open door to the Dutch islands and the inauguration of an unprecedented effort to strengthen their defenses.

These drastic changes in the traditional policy of the Dutch in the Indies have been followed with marked interest in Australia and there has grown up in the Commonwealth a sense of common interest with the island empire whose problems are in so many important respects similar to those of the Commonwealth. It is realized that Australia and Great Britain simply could not afford to let the Indies pass from Dutch hands and that their security is vital to the safety of the British Empire in the East and of Australia in particular. The unswerving policy of complete neutrality which has hitherto been the chief safeguard of the Netherlands and its empire against foreign attack renders virtually impossible any open collaboration on matters of defense between the Dutch and the British such as has been achieved between the British and the French. But both parties are undoubtedly conscious of the interdependence of their interests and the most cordial relationship has been established between the two great colonial powers who once were such bitter rivals for supremacy in the region whose wealth they now share. To the improvement of this cordial relationship Australia has recently made some important contributions. There has been the closest co-operation between the Governments of the Commonwealth and Netherlands India in the matter of developing commercial airways linking each country with the other and both with Europe. Dutch and British-Australian lines operate between Singapore and Sydney in friendly competition and there is complete reciprocity between the two countries in

the provision of landing and other facilities. The development of aerial communications has also rendered possible a more frequent and mutually advantageous exchange of tourists.

During 1938, Lord Gowrie, Governor-General of Australia, paid an official visit to Netherlands India and it is anticipated that a return visit by the Governor-General of Netherlands India to Australia will shortly complete an exchange of courtesies which symbolizes the good feeling between the two countries. Commercial relationships are being vigorously cultivated by an Australian Trade Commissioner at Batavia, and give promise of steady improvement in the future.

#### *Australia and British Policy in the Far East*

It has not been possible in this study to furnish any detailed account of official and unofficial reactions in Australia to every one of the major political developments in the Far Eastern conflict and attention has perforce been concentrated on those developments within Australia which have either been initiated or very largely conditioned by the course of events in the Far East. Australia's political role has in general been passive rather than active and it has been discussed accordingly. Moreover, in describing this passive role the main emphasis has been laid on long-term trends and major shifts in policy rather than on immediate reactions to particular incidents. It would have been interesting to examine in detail the Australian reactions to the Japanese occupation first of Hainan and then of the Spratly Islands, but no more can be said here than that these developments served to strengthen popular suspicions that Japan plans sooner or later to turn southward in her imperial career. Australian comments at the time bore a remarkable similarity to comments made in the 'nineties when Japan acquired Formosa. They were of course conditioned by the same old fear—and it is that old fear persisting through the decades which this study has sought to emphasize. It is one of the constant factors determining Australian attitudes toward the Far East.

One other phase of developments in the Far East since the outbreak of hostilities in 1937, in connection with which Australia's reactions are of some importance, has been the increasingly threatening attitude adopted by the Japanese toward British interests in China. Australian feeling in this connection has been conditioned partly by sentimental indignation at suc-

cessive blows to British prestige—a feeling which was to be expected among a people whose attachment to their mother country is extremely strong—and partly by the more immediate fear that incidents such as the blockade at Tientsin might lead to a serious Anglo-Japanese clash in which Australia would be involved. No peculiarly Australian interests in China were immediately threatened by Japan, but the hostile reaction in Australia after the initiation of the blockade at Tientsin was none the less violent. The dominant feeling in Australia is accurately reflected in a series of leading articles in the *Sydney Morning Herald* which denounced "the reckless excesses of Japanese navy and army commanders on the China coast and in the International Settlements" as being "more and more clearly directed towards the expulsion of the Western Powers from those settlements."<sup>113</sup> "No part of the Empire would be more profoundly and disastrously affected by the destruction of Britain's position in the Far East than Australia," said the *Herald*, "and none has more to fear from the triumph of militant imperialism in Japan."<sup>114</sup> Popular feeling in favor of sanctions became stronger in Australia in the middle months of 1939 than it had ever been before, and the *Sydney Morning Herald*, once the chief champion of Japan in Australia, now found itself able to argue that "Japan's trade depends upon the goodwill of relatively few parties, and as they are precisely those whose rights are menaced, concerted action should not be very difficult to achieve. . . . Action in unison by these few important powers would be quite sufficient. Moral considerations apart, the price which would have to be paid, in temporary dislocation and loss of trade, would be a small one, if it safeguarded Britain's share, and Australia's, in the future development of the Pacific."<sup>115</sup>

But if popular feeling was outraged and in favor of militant action, it found no reflection in a positive policy on the part of the Government. During the first half of 1939 the policy of the Government toward Japan became more conciliatory than ever. Shortly after his accession to office as Prime Minister, succeeding the late Mr. J. A. Lyons, Mr. R. G. Menzies announced the intention of his Government to establish one of Australia's

<sup>113</sup> *Sydney Morning Herald*, May 30, 1939.

<sup>114</sup> *Ibid.*, June 20, 1939.

<sup>115</sup> *Ibid.*, July 13, 1939.

first two independent legations in Tokyo. The other was to be in Washington. Then, early in May, the new Minister for External Affairs, Sir Henry Gullett, who in another capacity had sponsored the ill-fated trade diversion policy of 1936, made an important pronouncement on foreign policy in which he spoke of Japan in the following terms:

"I venture to submit two questions to this honorable House and to Japan. They are: Why, in the event of war, or even in these days in which we live under the shadow of war, should Japan prefer its new friends in the Anti-Comintern Pact, to its far older friends throughout the British Empire? Why should there be at this moment in Japan a powerful school of thought—though fortunately a minority school—urging that the Anti-Comintern Pact to which Japan is a signatory should be hardened into a military alliance? These are very important questions not only to Japan and to the people of Australia and the whole of the British Empire, but also to the 130,000,000 people who make up the United States of America. Why should Japan enter upon a war—I do not suggest that it will, and the latest news from Japan declares that it will not—which would be of incalculable proportions and dangers to it in the Pacific; a war in which only two things would be certain: First, that Japan could never emerge from it with victory; and secondly, that all the combatants would suffer incalculable loss of young manhood and every kind of prolonged economic and social punishment. I venture strongly to suggest that these questions are today in the minds of the statesmen of Japan, and of a great majority of its people. I venture also to believe that strong in the Japanese mind is the reflection that its closest and most trusted and trusty friends from the date of its famous revolution and all through its marvellous rise to world greatness until very recent years, were the peoples and the governments of the British Empire. I venture further to affirm that Japan has today a vivid consciousness that it was happier and more at rest, and indeed safer, with its old friend and ally than with its new ones. On our side we greatly valued that old friendship; and whatever the future may hold for us, we and our children after us will never cease to honor Japan for the wholehearted way in which it honored its partnership in the Anglo-Japanese Treaty during the dark days of the world war.

"Not without some confidence does the Commonwealth Gov-

ernment, of which at the moment I am the mouthpiece, look forward to a nearer and more auspicious relationship with the great Japanese people than that which prevails today."<sup>116</sup>

This emphatic appeal for Japanese friendship was made of course before the more spectacular assaults upon British interests and British prestige in China had reached their climax, but the character and results of negotiations for the renewal of the expiring Australian-Japanese trade agreement during the months of June gave no indication of any slackening in the Government's desire to maintain the friendliest relations with Japan.<sup>117</sup>

How far this desire affected the Australian Government's attitude in its consultations with the British Government on matters of foreign policy it is still impossible to say. An appeal to Australia, uttered in May by the retiring Japanese Consul-General, for a policy of non-aggression, peace, and better trade relations toward Japan was construed in some quarters as inspired by "a belief that Mr. Menzies might be encouraged, in Australian representations to London, to urge that all embroiling alliances should be excluded from the Pacific—a Russian pact as well as a rival German one." Moreover, there were those in Australia who suspected that in the counsels of the British Commonwealth the Australian Government might use its influence as a brake, not only upon any move for drastic economic retaliation against Japan, but even on the effort to create an alliance with Russia which might be offensive to Japan. On May 22, the Prime Minister stated that he had placed the Australian Government's views on the proposed Three-Power Pact before the British Government, but declared that "while properly emphasizing the special interests of Australia in the Pacific" his government had "placed no obstacles in the way of an agreement between Britain and Russia towards establishing a non-aggression pact."<sup>118</sup> It is impossible to say precisely how Mr. Menzies defined the "special interests of Australia" which might be affected by the Pact, but it seems safe, in view of the general line of his policy, to assume that the definition would include the maintenance of the friendliest relations with Japan that might be possible under the difficult circumstances.

<sup>116</sup> Commonwealth of Australia, *Parliamentary Debates*, May 9, 1939.

<sup>117</sup> See below p. 158.

<sup>118</sup> *Sydney Morning Herald*, May 24, 1939.

Whatever the attitude of the Australian Government during the course of the Anglo-French-Soviet negotiations for a pact against aggression, the apparent breach in the anti-Comintern front which followed the breakdown of those negotiations in August and the subsequent conclusion of the Soviet-German non-aggression pact, gave grounds for considerable relief on Australia's part. The fear that the Anti-Comintern Pact might be transformed at any moment into an outright military alliance which would render inevitable the extension of a European war to the Pacific area, was now allayed. With Japan alienated from the fascist powers of Europe the magnitude of the "menace" to Australia was felt to be greatly reduced.

## CHAPTER V

### AUSTRALIA AND THE FAR EAST DURING THE SINO-JAPANESE CONFLICT: ECONOMIC ASPECTS

#### *Australian-Japanese Trade Prospects Before Hostilities*

While the agreement of December 1936 set very definite limits to the future expansion of trade between Australia and Japan, at least in those commodities which had previously been the main articles of exchange, there were many who hoped, at the beginning of 1937, that with the trade war at an end, commercial relations between the two countries would soon be restored to the mutually advantageous basis on which they had been conducted prior to May 1936. It was realized that the goodwill created during the years after 1932 had been seriously impaired on both sides by the dispute, but it was assumed that the same complementary economic needs which had led Australian-Japanese trade to flourish in the days before "trade diversion" would lead to a quick recovery of the market in each country for the products of the other. But while Japan has succeeded in recovering, and for a time actually improving, her position in the Australian market, the Japanese market for Australian wool and other produce has contracted even further than it did during 1936, and the prospect of a return of this trade to the 1935 level within the predictable future now seems slight indeed. The principal reason why there has been further deterioration rather than recovery in Australian export trade to Japan since the beginning of 1937 is to be found in the drastic adjustments which Japan has made in her economy in order to solve her acute foreign exchange problem and meet the exigencies of the war situation in China. The tariff and licensing measures imposed by the Japanese Government for the specific purpose of retaliation against similar measures adopted by Australia in May 1936 were abandoned upon the conclusion of the trade agreement in December, but broader measures introduced originally with a view to lessening Japan's dependence upon Australian raw materials during the trade dispute were

retained and intensified after the dispute had ended, as a part of a comprehensive program designed to cut down the volume of Japan's imports from foreign countries generally. Unfortunately for Australia, Japan's new and powerful drive in the direction of self-sufficiency in 1937 and 1938 proved far more disastrous in its effect on the Japanese market for Australian products than even the drastic action taken specifically against Australia in 1936.

Recent developments in Japanese economic policy have been described and analyzed in detail in other studies in the present series and it is only necessary here to mention the broad trends and then to refer briefly to those specific measures which affect particularly Japan's trade with Australia. As to broad trends, the main ones were summarized in a Mitsubishi report of November 1937 which declared that "the emergency brought about by the outbreak of hostilities led to the development of two tendencies which had already existed earlier, namely official economic control and the expansion of heavy industries;"<sup>1</sup> along with these two tendencies went a third, namely, the intensification of the effort to maintain the volume of exports as the problem of foreign exchange became increasingly acute and many foreign markets showed a strong tendency to contract. Each of these three broad tendencies has had important implications for Australia which may now be considered in turn.

Before the outbreak of hostilities in China and even before its own trade war with Japan in 1936, Australia had felt the effect of Japanese state control in respect of wheat imports. The successful drive for self-sufficiency in this commodity led to a contraction in imports of Australian wheat as sudden as the expansion of those imports had been in the depression years. As already indicated, Japan by 1936 was only importing such Australian wheat as could be milled for re-export, and the amount of Australian and other foreign wheat and flour imported for domestic use had been reduced as a result of the deliberate policy of the Government to negligible proportions.<sup>2</sup>

The Government measures specifically designed to restrict the importation of Australian wool during the trade war of 1936 have already been mentioned in some detail, but one

<sup>1</sup> Mitsubishi Economic Research Bureau, *Monthly Circular*, No. 169, November 1937, p. 9.

<sup>2</sup> See above p. 63.

point in this connection may usefully be re-emphasized here. It is that the trade war with Australia not only demonstrated the feasibility of a drastic reduction in imports of what had previously seemed to be an indispensable raw material, but also led to the institution of specific types of planned adjustment in the textile industry which were to be retained long after the trade dispute with Australia had ceased and which were to be applied as the need became apparent to a much wider range of industries. In other words the trade dispute with Australia gave the Japanese Government valuable experience in the technique of control—experience by which they were quick to profit. The use by the Government of private organizations such as the Japan Woolen Manufacturers' Association and the Japan Federation of Export Silk and Rayon Textiles Associations as agencies through which to put control measures into effect proved so successful during the conflict with Australia that the same device has been widely used in the regulation of other industries since close government control has become the order of the day. Through the particular organizations mentioned, the Government was able in 1936 to arrange the rationing of raw material supplies, the regulation of prices, the levying of funds for the compensation of interests adversely affected by trade restrictions, and the compulsory use of substitutes. Since 1936 the Japanese Government instead of abandoning these measures designed originally to reduce the importation of wool from Australia has retained them and added others intended to reduce wool imports even further; similar measures applied in a parallel fashion to other industries have been increasingly used to reduce the total volume of Japan's imports and her dependence on foreign sources of raw material generally.

So far as Australia is concerned, it is the retention and extension of the control measures designed to reduce imports of raw wool which have had the most serious consequences, since raw wool was the mainstay of the once prosperous Australian export trade to Japan. Under the terms of the trade agreement of December 1936 the tariff and licensing measures against Australian wool were removed, but although the Japanese buyers reappeared at the Australian wool sales their operations during the latter half of the 1936-7 wool season were on a much smaller scale than they had been prior to the trade dispute. There were two main reasons for this reduced Japanese buying in the

period between the conclusion of the trade agreement and the outbreak of hostilities in China. One was that the policy of buying more wool from South America, South Africa and New Zealand was continued despite the heavier cost and generally poorer quality of wool from these sources and the other was that the use of artificial substitutes for sheep's wool was still encouraged by the authorities. Both the diversion of wool purchases to countries other than Australia and the encouragement of the use of substitutes were policies initiated by way of retaliation against Australia, but they were retained, after the trade war was over, on broader grounds of national interest.

The embarrassment caused during the trade war by the curtailment of wool imports from Australia had awokened Japan more than ever before to the dangers of undue dependence on a single source of supply for an important raw material. The manufacturers of woolen textiles were therefore pressed to continue buying a large proportion of their raw wool from South Africa and New Zealand, as well as Australia. There was no longer any desire to penalize Australia but there was a strong official desire to diversify all Japan's sources of supply. The result for Australia was that during the first half of 1937, despite the trade agreement, she supplied only 39.2 per cent of Japan's raw wool requirements or 29.2 per cent less than she had supplied in the corresponding period of the previous year. In the same six months of 1937 South Africa provided 27.0 per cent and New Zealand 15.2 per cent of Japan's imports of wool, increases of 197 per cent and 148.6 per cent respectively, over the amounts imported from those two countries in the first half of 1936.<sup>3</sup> Theoretically these shifts were the result of "autonomous" regulation by the private associations of importers and manufacturers concerned. Actually in view of the higher cost and poorer quality of wool from countries other than Australia and of the protests voiced during the trade war by those adversely affected by the ban on Australian wool,<sup>4</sup> there can be little doubt that government pressure accounts for the continued buying on a large scale of South African and New Zealand wool.

Considerations of national interest also led the Japanese Government to persist in its encouragement of the use of substitutes for imported wool during the months immediately follow-

<sup>3</sup> *Japan-Manchukuo Yearbook, 1938*, p. 462.

<sup>4</sup> See above p. 63.

ing the conclusion of the trade war with Australia even before the outbreak of hostilities in China. Of course it was hardly to be expected that the staple fiber industry which had received a very great stimulus during the trade dispute would be abandoned to its fate when natural wool once more became freely available. A great deal of capital had been invested in the new industry during the boom period, textile machinery had been adjusted to the use of fiber and a market had been created for fiber cloth. But more important still was the fact that the same desire to reduce Japan's dependence on Australian wool which determined the continuance of buying in South Africa and New Zealand determined the further encouragement of the use of locally made substitutes. In addition to continued support given to the manufacture and use of staple fiber after the end of the Australian-Japanese trade dispute, the early months of 1937 also saw the rapid development of the technique of reconditioning used wool. The number of plants installed for this new industry increased from about ten in 1936 to eighty in the middle of 1937 and about 20,000,000 pounds of discarded or wasted woolen goods were collected for treatment in these factories during the whole year.<sup>5</sup>

From the facts given it will be clear that Australian hopes for a complete recovery of the Japanese market for Australian wool would probably have proved ill-founded even if the struggle in China had not created a situation which made an even more drastic reduction in imports imperative. But the elaborate system of controls applied to the Japanese woolen industry, in common with every other form of economic activity, immediately after the outbreak of war in China was such as to deal an even more serious blow to the hopes of the Australian wool-grower.

Immediately upon the outbreak of hostilities the Japanese wool industrialists met and decided upon a system of rationing of raw material supplies among the member companies for the period between September 1937 and August 1938,<sup>6</sup> and differences between the Federation of Wool Industrialists' Associations (the weavers) and the Raw Wool Association (the spinners) were ironed out,<sup>7</sup> presumably to render them more effective as

<sup>5</sup> *Japan Yearbook, 1938-9*, p. 558.

<sup>6</sup> *Op. cit.*, p. 520.

<sup>7</sup> *Op. cit.*, p. 521.

agencies of government control in the woollen industry. These steps paralleled those already taken in respect of the cotton industry where, even before the commencement of the war, foreign exchange difficulties had led to the initiation of a system of close regulation of the importation and consumption of raw cotton.

The introduction of raw material rationing and adjustment of the agencies of control were only the first steps in the regulation of the woollen industry which resulted from the war situation. At the beginning of October 1937, a Ministerial Ordinance issued under the Emergency Export-Import Control Law placed raw wool in the category of goods whose importation was to be restricted.<sup>8</sup> It was not placed upon the banned list since the export of woollen textiles offered one means of relieving the foreign exchange situation and woollen textiles were also required for military purposes. It is important to notice that Australian wool was specifically excluded from the provisions of this ordinance on the ground that since the beginning of the year it had been admitted under ministerial permits issued in accordance with the terms of the trade agreement.<sup>9</sup> However, any benefit which Australia might have derived as a result of the exemption of Australian wool from the provisions of the import restriction ordinance was more than offset by the effects of two other types of government control which tended to reduce wool imports from all sources. The first of these was the strict regulation of foreign exchange transactions and the second was a series of ordinances compelling the use of large proportions of staple fiber in woollen textiles.

Long before the outbreak of hostilities in China, Japan found it necessary, because of her great dependence on foreign imports and an adverse balance of international payments, to keep a careful eye on the foreign exchange position and as early as January 1937, the Government instituted a licensing system for import exchange transactions involving more than ¥30,000 a month. Owing to a rapidly increasing demand for raw materials from overseas for domestic industries and the soaring of commodity prices, it was decided in May that further restrictions on foreign exchange transactions would be necessary and on July 7 the earlier licensing ordinance was revised to provide for

<sup>8</sup> Mitsubishi Monthly Circular, November 1937, No. 169, p. 19.

<sup>9</sup> *Ibid.*

the lowering of the exemption point for import exchange licenses from ¥30,000 to ¥1,000 a month. By December 1937 the exemption point had been further reduced to ¥100 a month. Moreover it was felt desirable to control imports the purchase of which was financed by the use of funds held abroad, or otherwise than by bills of exchange, and accordingly the licensing system was extended on August 28 to cover such imports. In the issue of import licenses special consideration was given to goods required for the munitions industries and to essential raw materials.<sup>10</sup> As the war dragged on and the strain on Japan's finances grew greater it thus became increasingly difficult to finance imports of wool or of any other commodity from countries outside the "yen bloc."

The difficulties of the wool importers resulting from the foreign exchange controls were eased to some extent by the introduction in March 1938 of the so-called "link system." Wool had always been accorded preferential treatment among the restricted imports since it was the raw material of an important export industry and the funds obtained through the export of woolen textiles made it worthwhile to allow rather more raw wool to be imported than would have been desirable had the woolen industry been catering only to the domestic market. Under the link system facilities were provided for the importation of raw wool against certificates indicating that a corresponding quantity of woolen textiles would be exported within ten months. This system was strengthened in July 1938 when the Government decided to release ¥300,000,000 of the specie reserve in the Bank of Japan to establish a revolving foreign exchange fund for use in the purchase of certain raw materials required by export industries.<sup>11</sup> Wool was specified as one such material. How much effect the link system has had upon purchases of wool from Australia it is impossible to determine on the available evidence. There are indications that the results as a whole have been disappointing so far as the export trade in woolen textiles is concerned<sup>12</sup> but it may be assumed fairly safely that, without the link system and the revolving exchange fund, purchases of raw wool would have declined even more

<sup>10</sup> *Japan Yearbook, 1938-9*, pp. 380-1.

<sup>11</sup> *Mitsubishi Monthly Circular*, September 1938, No. 179, p. 23.

<sup>12</sup> I. P. R. Secretariat, *Recent Articles in Japanese Periodicals* (translated into English), 1939, p. 9 *et seq.*

sharply than they have done. From the Australian point of view these measures may be viewed as factors tending to lessen without eliminating the adverse effect of foreign exchange restrictions upon Japanese purchases of wool and other Australian commodities.

The control measures which in the long run are likely to have the most serious effect upon Australia are those requiring the large-scale substitution of staple fiber for sheep's wool in heavy textiles. Within three months of the commencement of war in China regulations were put into force compelling the admixture of 30 per cent of staple fiber in blankets and serge and 20 per cent in finer woolen fabrics.<sup>13</sup> Cloth manufactured for export or for military use and cloth in which 85 per cent of "shoddy" had been used were exempt from those requirements. Despite the exemption of cloth required for military purposes the army announced, when the new regulations came into force, that their purchasing agents would require at least 30 per cent of staple fiber in blankets and 25 per cent in uniforms.<sup>14</sup> The compulsory admixture of staple fiber in the finer woolen fabrics was increased in July 1928 from 20 per cent to 50 per cent and spinners of worsted yarns were required to mix staple fiber with wool at rates ranging from 50 per cent to 90 per cent.<sup>15</sup>

The effect of these regulations has been to make staple fiber the standard textile material for daily use and to give a further fillip to the fiber industry. As imports of raw wool have declined, the output of the fiber mills has rapidly increased, the daily production capacity of plants owned by members of the Japan Staple Fiber Associations rising to 1,000 metric tons in July 1938. Japan has thus become the second largest producer of staple fiber in the world.<sup>16</sup> The development of the industry is hampered at present by the inadequacy of domestic supplies of the wood pulp from which staple fiber and rayon are made and the manufacturers are therefore obliged to import a good deal of the pulp they need from foreign sources. As a result, the same factors which make the importation of raw wool difficult are creating a problem for the manufacturers of the wool substitute.

<sup>13</sup> Mitsubishi *Monthly Circular*, November 1937, No. 169, p. 19.

<sup>14</sup> *Far Eastern Survey*, January 19, 1938, Vol. VII, p. 23.

<sup>15</sup> Mitsubishi *Monthly Circular*, December 1938, No. 182, p. 15.

<sup>16</sup> *Ibid.*

The problem is being met to some extent by applying the "link" system to wood pulp imports and staple fiber exports and also by the development of domestic and Manchukuoan substitutes for wood pulp; but the staple fiber industry is still encountering difficulty in getting adequate quantities of raw material. However, it is small comfort to the Australian wool-grower to be told that the Japanese textile manufacturers who used to buy their raw material from him are being forced to seek substitutes for the substitutes which have already displaced his sheep's wool from the market. It is true that the displacement of sheep's wool by artificial fiber is not yet complete and that fabrics made from the latter are inferior to those woven from real wool; it is also true that the shift to the "artificial" fabrics has been brought about "artificially" by government regulation. But in the unlikely event of the regulations in favor of artificial fiber being removed it is even more unlikely, in view of the heavy investment and the adjustments in technique and taste which have accompanied the growth of the new industry, that Australian wool will ever recover from staple fiber the dominating position which it once occupied in the heavy textile industry of Japan.

As the war in China has continued and Japan's foreign exchange difficulties have grown greater, the restriction of imports has become increasingly rigorous as have the regulations governing the consumption of imported raw materials. Controls over the wool industry have been particularly severe, and drastically as wool imports were reduced through the operation of the direct and indirect controls outlined above, the Government found it necessary in December 1938 to apply even stronger checks upon the consumption of wool. Under a ministerial ordinance enforced on December 20 severe curtailment of their output was required of the woollen manufacturers. The manufacture of woollen tissues containing more than ten per cent of wool by looms other than those registered with the Japan Wool Industry Association was prohibited, all unregistered looms had to be sealed, and production on all looms must cease entirely on certain "holidays" proclaimed by prefectoral governors about four days a month. As a result of these measures it was hoped to curtail production of woollen textiles by about 40 per cent, thus reducing even further the consumption of raw wool.

which already had been cut to 6,000 bales a month—about one-tenth of the former consumption—since July 1938.<sup>17</sup>

One result of the elaborate system of government controls rendered necessary by the economic stress of the war in China has thus been to reduce Japan's imports of sheep's wool by more than half since 1935, the last year that can be considered normal. It is true that the first effect of war preparation and the increased need for military supplies when the war actually began was to increase the demand for wool, and the total value of wool imports rose to ¥298.4 million in 1937 as compared with ¥191.8 million in 1935. But, as a result of drastic control measures introduced after the outbreak of hostilities, the value of wool imports from all sources fell in 1938 to ¥94.4 million. Moreover, the measures designed to diversify the sources of supply of raw material for the woolen textile industry were so effective that, despite the sharp rise in total wool imports in 1937, purchases from Australia declined absolutely as well as relatively in importance. In value and in volume Japanese imports of Australian wool in 1937 were very much less than they had been even in 1936, the year of the trade dispute. Valued at ¥147.5 million in 1936 Japanese purchases of Australian wool, despite the trade agreement and the increase in total wool imports, fell to ¥118.2 million in 1937. In 1938, although in the desperate effort to reduce the drain on supplies of foreign exchange Japan bought a relatively greater proportion of the wool she required from Australia, where it was cheapest, the value of those purchases was again reduced, this time by more than half, totaling only ¥64.9 million. In view of this reduction the fact that Australia provided 68.7 per cent of Japan's wool requirements in 1938 as compared with 39.7 per cent in 1937 indicated no gain to the Australian wool grower.<sup>18</sup>

#### *Effects of Japanese Controls on Australia*

The controls which the Japanese Government has applied in adjusting the country's economy to the war situation have thus had the effect of reducing to minor proportions what had become, prior to 1937, Australia's second most important market

<sup>17</sup> *Ibid.*, January 1939, No. 183, p. 32, and *Far Eastern Survey*, February 15, 1939, Vol. VIII, p. 46.

<sup>18</sup> Unless otherwise stated Japanese trade figures given in this chapter are based upon those given in *Monthly Returns of Foreign Trade of Japan*, issued by the Department of Finance, Tokyo.

for her most important export product. Instead of being merely a temporary setback to the steady expansion of the Japanese market for Australian wool, the trade dispute of 1936 now appears to have marked the beginning of a progressive decline. The seriousness of this decline for Australia can only be fully appreciated when it is viewed in relation to the general fall in world prices for those export commodities upon which Australia has come to depend very largely for the maintenance of her prosperity. The Commonwealth Statistician's commodity export price index, with a 1928 base of 1000, fell from 923 in 1937 to 699 in 1938.<sup>19</sup> From an average of 16.9 pence a pound in July 1937, the price of greasy wool fell to 12 pence in July 1938 and it averaged only 10.6 pence over the eight months ending February 28, 1939.<sup>20</sup> The sharp reduction of the Japanese demand for wool in 1938 undoubtedly helps to account for the fall in the world price of this commodity and Australia has thus suffered indirectly as well as directly from the Japanese control measures which have brought this reduction about.

In ordinary times Australia might have suffered a serious recession as a result of the drop in export prices generally, and that of wool in particular, but two main factors have helped to soften the blow at this time. The first is a marked increase in purchases of wool by Britain, other European countries, especially France, and the United States during the 1938-9 season. The second has been the Australian Government's new defense program which is stimulating both secondary and primary industry and involves a great deal of new investment. It is worth noticing that increased European wool purchases no less than the new Australian defense program are largely a consequence of the disturbed international situation which is thus paradoxically exercising at the same time a stimulating and a depressing effect upon the Australian economy.

If the principal effect of the control measures adopted by the Japanese Government has been to curtail drastically the principal Eastern market for Australian wool, the rapid development of heavy industry, which is the second most striking feature of the recent development of the Japanese economy, at one stage promised to create a new and important market for

<sup>19</sup> Quoted in National Bank of Australasia Ltd., *Monthly Summary of Australian Conditions*, March 1939, p. 17.

<sup>20</sup> *Quarterly Summary of Australian Statistics*, December 1938, p. 24.

Australian iron. As it happens, however, the policy of the Australian Government has prevented the fulfilment of this promise. The circumstances under which the Australian Government banned the export of iron ore in May 1938 have already been considered in some detail, but it is worthwhile examining briefly here some of the economic implications, especially from the Japanese point of view, of the abortive attempt to find in Australia a partial solution of what has become one of Japan's key problems during the present crisis. This subject is important for the present study not because of any new development in the trade between Australia and Japan—the trade in iron was not allowed to assume very significant proportions—but because it offers a striking illustration of the close interrelation of the economic needs and the economic policies of the two countries.

Japanese heavy industry until recent years took second place in the nation's industrial structure to the lighter industries, especially textiles. Its development has been hampered by the lack of domestic mineral resources, and the Japanese steel industry has been described as "largely a hothouse product," "owing its existence to lavish encouragement by a government apprehensive of relying on foreign sources for essential military supplies. Prior to 1932, Japan was dependent on imports for 91 per cent of its iron ore, 37 per cent of its pig iron and 20 per cent of its steel. The Government-owned Yawata Steel Works dominated the industry, producing about three-quarters of the pig iron and over half of the steel made in Japan."<sup>21</sup>

Since 1931, the Japanese output of pig iron, steel and machinery has increased enormously but, even so, the demand for these commodities outstripped the local supply and over the same period Japan has been forced to import progressively larger quantities of ore and pig iron. The iron deposits of Manchuria and China constituted a strong lure to those who felt that Japan's dependence on remote sources of supply for the material most vital not only for the armament industries but for the whole industrial development of Japan was a serious strategic weakness. But even with the iron of Manchuria and Inner Mongolia added to the resources under her own control,<sup>22</sup> Japan has found it necessary in the present crisis to increase still

<sup>21</sup> *Far Eastern Survey*, January 30, 1935, Vol. IV, pp. 9-10.

<sup>22</sup> *Far Eastern Survey*, February 13, 1935, Vol. IV, pp. 17 *et seq.*, and November 20, 1935, Vol. IV, pp. 184-5.

further her imports from foreign sources. Since the outbreak of hostilities in July 1937 the heavy industries have come to be regarded as even more vital than before and the iron ore problem has become even more acute. Although Japan has felt it to be imperative that she reduce the volume of her imports, it is equally imperative that she should have an adequate supply of iron ore if she is to develop her own industries, increase her exports and above all keep her armies supplied with munitions. The result is that in readjusting her economic structure to meet wartime needs Japan has shifted the main emphasis from light to heavy industry. Legislation passed early in the struggle placed the iron and steel industry in a preferred class of essential industries which must be developed at all cost. Further investment in most other industries was prohibited but special arrangements were made for the provision of capital for the expansion of industries in the preferred group. Moreover, the available supplies of iron ore were placed under drastic control designed to ensure that resources were husbanded and directed into those channels which were of the greatest national importance, especially the munitions industries.<sup>23</sup> As in other industries, these new controls were intended to reduce Japan's dependence on foreign sources of raw material supply and to help reduce the volume of imports generally; but it is important to notice that the iron and steel industry was regarded as so vital that even the serious shortage of foreign exchange was not to be allowed to interfere with the provision of adequate supplies of iron ore. Plans for the development of the industry, even after the foreign exchange situation had become really acute, envisaged the importation of quite considerable quantities of ore from foreign sources. One of the more important foreign sources to which Japan had begun to look for iron supplies, even before the war in China began, was Australia.

#### *Australia as a Source of Raw Material for Japanese Heavy Industry*

Iron ore first appeared as a small but significant item among Japan's imports from Australia during the World War, when considerable difficulty was experienced in obtaining supplies from European sources. In the post-war years shipments of iron

<sup>23</sup> U. S. Department of Commerce, *Monthly Trade Report—Japan*, September 25, 1937, and October 15, 1937.

ore were small and intermittent, but in the years after 1932, they increased steadily, rising from a mere £A7,908 in 1932-3 to £A158,064 in 1935-6. Shipments of iron and steel scrap over the same period also increased in value from £A43,227 to £A115,665, the increase in both cases reflecting in a small way the vast development of the Japanese iron and steel industry. During the year of the trade war Australian exports of iron ore to Japan fell off a little but those of scrap showed an increase. By 1936, however, the shortage of raw material for the rapidly developing iron and steel industry in Japan was becoming acute. The whole Japanese Empire was providing less than 20 per cent of the total annual requirements of over 4,500,000 tons, and owing to the armaments race in Europe the price of ore was rising and it was becoming increasingly difficult to obtain the balance from those foreign sources which had previously been able to supply Japan's needs.<sup>24</sup> As a result, attention began to turn to possible new sources nearer home, among them Australia. A leading article of late 1936 in the *Japan Times* listed the possible new sources and indicated some of their advantages: "Tremendous iron deposits are found in North China, the Yangtse Valley region, the Philippines, French Indo-China, Malay, and Australia, and ores found in these countries are of high grade. Under normal conditions, these iron resources in the Far Eastern and South Sea countries can be developed by Japan in an advantageous manner. It may be said that the distance between these countries is rather shorter than that between the mines and furnaces in either the United States or Germany. The cheaper transportation facilities, namely ships, can be utilized by Japan in this connection as against the railways in the case of the United States and Germany."<sup>25</sup>

Japan had already been drawing some iron ore from all the countries mentioned by the *Japan Times*, except Indo-China, before 1936,<sup>26</sup> but now she planned a substantial expansion of imports from these areas in order to supplement and perhaps eventually replace dwindling and expensive supplies from Europe and America. Wherever possible it was hoped to develop new sources of supply through the agency of Japanese mining companies. Japanese firms were already working the iron fields

<sup>24</sup> *Japan Yearbook, 1938-9*, p. 510.

<sup>25</sup> *Japan Times*, December 29, 1936.

<sup>26</sup> See *Far Eastern Survey*, June 9, 1937, Vol. VI, p. 134.

of China, Manchuria and British Malaya but now their operations were to be extended to new fields. The Formosan Development Company, established early in 1937, was to begin operations in French Indo-China,<sup>27</sup> where the iron deposits had scarcely been touched, and the Japan Mining Company was to develop the rich virgin field of Yampi Sound in Western Australia.<sup>28</sup>

From the facts given it will be realized that the scheme for the development of the iron of Yampi Sound described in an earlier chapter was not merely an isolated commercial venture initiated by a single Japanese firm. Seen in its proper perspective from the Japanese point of view, it was part of a much larger movement to ensure the supply of a most vital raw material from sources nearer home than those upon which Japan had hitherto depended. That movement was itself the result of the deliberate transfer of emphasis from light to heavy industry which has been one of the most striking and important developments in Japanese economic policy in recent years.

Moreover the part assigned to the Yampi Sound development in the vast plan to strengthen Japanese heavy industry was by no means an unimportant one. The new Australian field was expected to produce 1,000,000 tons of ore annually commencing in 1938, and when it is realized that at the time the plans for its exploitation were laid down Japan's total iron ore requirements amounted to only a little over 4,500,000 tons, the significance which must have been attached to the Australian scheme becomes apparent. That significance was enormously enhanced when the war in China created a demand for iron and steel and an expansion of heavy industry far greater than had been anticipated in 1936.

Early in 1938 Domei reported the formulation, by the Department of Commerce and Industry, the Manchukuo Affairs Bureau and the Cabinet Planning Board, of a new five-year iron and steel plan embracing Japan proper, Manchukuo, and North China. This plan called for a combined production in three areas of 10,000,000 tons of steel in 1940, and an annual production thereafter of 11,000,000 tons. To enable Japan proper to carry out her part of the schedule it was estimated that she would have to increase her imports of iron ore from

<sup>27</sup> *L'Impartial* (Saigon), November 9, 1938.

<sup>28</sup> See above p. 88.

all sources by 7,000,000 tons each year, over and above the 5,500,000 imported in 1937, until by 1940 she would require between 12,000,000 and 12,500,000 annually. Assuming that Korea's output of ore could be increased from 1,500,000 tons to 2,500,000 tons by 1940, it was reckoned that at least 9,500,000 tons would still have to be imported from foreign sources.<sup>20</sup> The importance of an assured annual supply of 1,000,000 tons of ore from Yampi Sound as a factor contributing to the realization of this highly ambitious plan can readily be appreciated. Had the Australian Government realized just what its embargo on the export of iron ore meant to the powerful neighbor whom it has shown itself in other ways so loath to provoke, it might have gone more warily about its iron ore conservation policy and perhaps have implemented it in a rather less drastic fashion.

Two important features of recent plans for the development of Japanese heavy industry, even before the war in China, have been the systematic attempt to develop all possible sources of iron supply in Japan proper and other areas under Japanese control and the planning of iron and steel consumption in such a way as to ensure that those needs considered of vital national importance were satisfied first. As early as April 1937, simultaneously with the suspension of import duties by an imperial emergency ordinance, the Minister for Commerce and Industry, Rear-Admiral Dr. Takuo Godo, issued a departmental ordinance, based on the National Resources Investigation Law, which sought to strengthen the supervising power of the Administration over dealings in iron and steel. The ordinance provided that all manufacturers and dealers must file minute monthly reports with the competent Government authorities covering their manufacture, imports, sales, purchases and prices of iron and steel. The Government was also giving substantial encouragement to the search for domestic and colonial supplies of iron ore.

Both the effort to develop local sources of ore supply and the strict regulation of the use of iron and steel materials were intensified in the latter part of 1937. In September, an Iron Industry Control Law instituted a licensing system for the non-military use of iron and the elaborate system of buying and

<sup>20</sup> U. S. Department of Commerce, *Monthly Trade Report-Japan*, March 25, 1938, p. 20.

selling cartels was considerably strengthened as a result of the consolidation of various independent organizations into central national associations.<sup>80</sup> About the same time the purchase was reported of a new Krupp process for the treatment of low-grade ores of which there are extensive deposits in Japan. Despite such measures as these "a lack of domestic reserves of iron ore and the necessity for importing ever-increasing tonnages of this vital raw material, as well as pig iron and scrap, was the most serious problem confronting Japanese industry at the end of 1937."<sup>81</sup> It is significant evidence of the importance attached to this whole problem that as early as August 1937 the publication of detailed statistics regarding iron and steel was forbidden under the Military Secrets Law.<sup>82</sup>

The measures already adopted were strengthened and extended in 1938. In March the Government appointed an Iron and Steel Control Council as a central organization to regulate the distribution of iron and steel materials. Early in April an Iron and Steel Federation was organized with the object of investigating and studying the adjustment of demand and supply, the regulation of imports and exports, the securing of raw materials, improvement in production and distribution and the expansion of the iron and steel industry. The Control Council was to exercise the practical control and above it the Federation was to function as the highest organ directing the industry. In the planning of the industry particular attention was to be given to the problem of increasing the output of iron ore in Japan proper, Korea, Manchukuo and those parts of China under Japanese domination, since already the increased imports of iron from foreign sources were aggravating the serious position arising from an adverse balance of international payments.<sup>83</sup>

#### *Effects of Australian Iron Ore Export Embargo on Japanese Plan*

The ban on the export of iron ore from Australia, since it ruled out one of the main sources of overseas supply to which

<sup>80</sup> U. S. Department of Commerce, *Monthly Trade Report—Japan*, September 25 and October 25, 1937.

<sup>81</sup> *Minerals Yearbook, 1938*, p. 56.

<sup>82</sup> *Ibid.*

<sup>83</sup> U. S. Department of Commerce, *Monthly Trade Report—Japan*, March 25 and April 25, 1938.

Japan had been looking, seriously aggravated the problem confronting the bodies set up to insure the satisfactory development of Japan's key industry during the emergency period. The 1,000,000 tons of ore which Japan had expected to draw from the Yampi field represented more than 10 per cent of the estimated annual requirements from foreign currency countries after 1940, under the new five-year plan which it was the task of the new bodies to implement. More than ¥6,000,000 had been invested in this foreign field and since it was to be developed under indirect Japanese control with Japanese capital, and with Japanese ships carrying the entire output back to Japan it is safe to assume that the Yampi iron would have been acquired on terms a good deal more favorable than those usually involved in the purchase of ore from foreign sources. But now this prospect was destroyed and a large investment appeared to have gone for nothing. Iron ore and foreign exchange are both rare and valuable in Japan and the action of the Australian Government meant that a considerable sacrifice of foreign exchange had been made without any recompense in the form of iron ore.

The frustration of the Yampi scheme helped to hasten the drive to develop domestic sources of ore supply. In June 1938, not long after the Australian embargo had been announced and protests had proved unavailing, the Ministry of Commerce and Industry announced an increase of ¥1,000,000 in the subsidy for ore prospecting, and a Minerals Production Law, promulgated in April, was put into force. The semi-official Japan Iron Manufacturing Company was reported in July to have set up a special resource section to develop domestic sources of iron ore. The company offered to buy up small mines and to purchase small quantities of ore; it started digging operations on several new fields of its own in Hokkaido, Nugata, and Fukushima prefectures; it offered technical advice to independent companies and intensified its search for new iron deposits not only in Japan proper but also in Korea and Manchuria.<sup>34</sup> In order to husband supplies, further restrictions were imposed on the non-military use of iron and steel. As from June 1938 manufacturers were not allowed to purchase iron or steel without producing vouchers issued by the authorities, and so drastic

<sup>34</sup> U. S. Department of Commerce, *Iron and Steel Fortnightly*, October 26, 1938, p. 8.

have restrictions become that civil construction involving the use of steel has been brought almost to a standstill. Plans for the construction of bridges, office buildings and department stores have had to be abandoned. Moreover, farmers have found it difficult to obtain agricultural implements, artisans are unable to replace their tools, and industrial machinery other than for munitions making has become increasingly difficult to obtain. In the winter of 1938-9 considerable hardship was experienced in the cities because burst water pipes could not be readily replaced.<sup>35</sup> The whole country was being combed for scrap iron. First unnecessary and unused iron articles from government offices were collected and then a new drive was initiated to gather in all iron objects which could be replaced by substitutes—these included such things as manhole covers, park benches, iron railings, lamp-posts, mail boxes and even ash-trays. No more need be said to indicate the seriousness of the problem which the Australian iron ore embargo served to aggravate. It would be foolish to attribute the intensification of the Japanese search for domestic iron supplies since June 1938 solely or even mainly to the Australian Government's action, but undoubtedly it was an contributory factor, and at least it helped to confirm Japan in her sense of the unwisdom of dependence on foreign sources of raw material and to render even more urgent the need for a greater degree of self-sufficiency.<sup>36</sup>

If great things may be compared with small, one may draw attention to the curious parallel between the policies of the Australian and the Japanese Governments in respect of iron ore. Each has realized the tremendous importance of heavy industry in troublous times and each is seeking to strengthen itself by developing particularly the manufacture of iron and steel, and each is husbanding its resources of raw material. The problem facing Japan is, of course, an infinitely greater one than that confronting Australia. Heavy industry has already been developed to a high level in Japan while in Australia it is in its infancy, and accordingly the Japanese demand for raw material is far greater and more urgent than that in Australia. On the other hand, although the Australian Government considers its

<sup>35</sup> *Japan Times*, January 14, 1939.

<sup>36</sup> At the request of the Government of Indo-China, France has also banned the export of iron ore from that territory thus frustrating the plans of the Formosa Development Company.

iron ore resources inadequate for future needs, they are rich by comparison with those of Japan even if the resources of the whole Japanese Empire are taken into account. Nevertheless the comparison between the two cases is worth making even if only to make it plain to Japanese readers that the motivation, at least, of Australia's iron ore conservation policy is essentially similar to that of Japan's struggle to develop an iron ore supply adequate for her industrial and military needs. Australia merely wishes to avoid in the future the serious situation in which Japan at present finds herself by reason of her poverty in iron ore.

### *The Japanese Drive for Export Markets*

Some attention has now been given to the implications for Australia of the intensification of economic control and the shift to heavy industry which are two of the most important trends in Japanese economic policy since the commencement of the struggle in China. The third important trend, the implications of which must be noted briefly here, is the intensification of the effort to maintain and if possible increase the volume of Japan's export trade. All the same factors which led to Japan's extraordinary invasion of the markets of the world in the years after 1931 have continued to operate ever since, but domestic difficulties which made the initial export drive imperative have been greatly intensified since the beginning of the conflict in China. The increase in the volume of imports during the current crisis has created an even more urgent need for Japan to seek a proportionate increase in the volume of exports. But the obstacles in the path of export expansion have also increased; over and above the earlier tariff barriers raised by foreign countries against Japanese goods there have been erected new barriers in the form of official and unofficial boycotts of Japanese goods, and within Japan itself the concentration of energy and funds upon war and war industries has lessened the ability of the export industries to expand their activities or even maintain them on the old level. In the words of a Japanese survey of November 1937, "it would be futile to expect any further great expansion of the export trade during the emergency period, as there will probably be a shortage of the articles which have previously been exported. This applies to certain metal goods, wire-netting, chemical goods, etc. Prices, too, may not be quite

so favorable, in view of the enforced reduction of output, the restriction of raw materials and last, but not least, the scarcity of shipping with its attendant result of higher freight rates."<sup>87</sup>

Nevertheless, in formulating the nation's economic policy during the present crisis, the Government and its various agencies have given much attention to the vitally important problem of at least maintaining the volume of Japan's export trade. Strong as the effort has been, it has not been conspicuously successful and the general tendency has been for exports to contract to an extent which makes the present situation extremely serious from the Japanese point of view. It is true that the total value of Japanese exports increased during 1937, but not sufficiently to offset an even greater increase in the total value of imports, the adverse balance of trade rising from just over ¥130 million in 1936 to nearly ¥636 million in 1937. Then in 1938, the total volume of exports declined to ¥2,690 million from ¥3,175 million in the previous year, the 1938 figure being slightly less than that for 1936. It should be noticed, however, that in 1938 as a result of import limitations and of largely increased exports to the yen-bloc area an export surplus of more than ¥60 million was achieved.

A very brief account has already been given of the government controls instituted with a view to reducing imports and more especially those which have affected Australia. The measures adopted in the effort to maintain exports form part of the same comprehensive plans for conserving the nation's economic strength and only their general character need be sketched here to supplement the picture already given. The Foreign Trade Adjustment Law of July 1937 which strengthened the Government's power to restrict imports was also specifically designed "for the purpose of conducting operations aimed at preventing or alleviating foreign restrictions on Japanese exports."<sup>88</sup> The Foreign Trade Association Law, passed in the same session of the Diet, brought associations of importers and exporters together into a single federated organization designed not only to simplify the procedure of regulating imports but also to help "the promotion of the foreign trade of the nation."<sup>89</sup> In the previous session of the Diet, the Export Compensation Law,

<sup>87</sup> Mitsubishi *Monthly Circular*, November 1937, No. 169.

<sup>88</sup> *Japan Yearbook, 1938-9*, p. 395.

<sup>89</sup> *Ibid.*

first passed in 1930 to assist the development of new markets where credit was insecure, was revised in such a way as to extend its application to the older markets as well, and help the financing of a wider range of exports.<sup>40</sup> Under the terms of this law the Government assists the banks in making advances to exporters and compensates them for losses suffered when advances are not repaid. The provisions of the law were liberalized still further in August 1938.<sup>41</sup> The raw material regulation, the "link" system and many of the industrial control measures already mentioned were also intended either directly or indirectly to foster the export trade which has become increasingly important as the foreign exchange position has weakened under the strain of wartime needs.

During 1938 the machinery for foreign trade regulation and promotion underwent many changes. As the technique of controlling imports and regulating domestic industry was perfected and the machinery began to function fairly effectively it became possible to give increasing attention to the promotion of the all-important export trade. A significant indication of this trend was the announcement in November 1938 that a comprehensive and powerful central body, to be known as the Foreign Trade Promotion Council, would shortly be established. Its purpose was said to be "to stand between the clamor of business men and the Government in controlling the divergent opinions of practical men and recommend to the Government the best means to promote foreign trade." The plan was the outcome of discussions between certain eminent leaders in business<sup>42</sup> and had the support of the Ministry of Finance, the Ministry of Commerce and Industry, the Cabinet, the Planning Board and other Government agencies.<sup>43</sup> One other feature of the drive to increase exports which is worthy of mention here has been the extension of Japanese trade representation abroad during 1938. It was announced in November that a number of new offices would be opened abroad, including one in Australia, and that their special function would be to investigate the credit condi-

<sup>40</sup> *Ibid.*

<sup>41</sup> Mitsubishi *Monthly Circular*, September 1938, No. 179, p. 26.

<sup>42</sup> Baron Seinosuke Goh, President of the Japan Economic Federation; Takuo Godo, President of the Japan Chamber of Commerce and Industry; Kenji Kodama, President of the Federation of Foreign Trade Associations and Baron Ichizemon Morimura, President of the Japan Foreign Trade Society.

<sup>43</sup> Mitsubishi *Monthly Circular*, December 1938, No. 182, p. 24.

tions of foreign firms as well as seek the promotion of trade generally.<sup>44</sup>

As already shown, the effort to promote the export trade to foreign countries has not been powerful enough to prevent a fall in the total volume of exports. But Japanese exports have fared better in Australia than in almost any other market outside the "yen bloc." The decline in the total value of Japanese exports to Australia during 1936, the year of the trade war, had not been very great and in 1937, they totaled ¥72,079,695 which was only ¥2,713,221 short of the peak figure reached in 1935. The Australian figure for imports of Japanese origin during the statistical year ended June 30, 1938<sup>45</sup> is an even better indication of the degree to which Japan recovered and actually improved her position in the Australian market after trade war dislocations had been adjusted and despite the difficulties under which the Japanese export trade labored as a result of the war in China. Totaling £5,349,086 sterling, Australian purchases of Japanese goods during this period were greater than they had been in any previous year. Textile purchases were limited under the terms of the trade agreement, but in 1937-8 Australia bought from Japan nearly 200 per cent more foodstuffs, nearly 100 per cent more raw silk and a great deal more timber, glassware, scientific instruments and other manufactured goods not covered by the agreement. Although Japanese exports to Australia were somewhat less for the whole of 1938 than they were in 1937, they remained greater than they had been during the year of the trade war. During the first nine months of 1938 Australia was the only important country outside the "yen bloc" which purchased more from Japan than it had done in the corresponding period of 1937;<sup>46</sup> the falling off only came at the very end of the year.

#### *Australian Trade Policy Since 1937*

If the policy of the Japanese Government under stress of a war situation has been such as to bring about incidentally a very great reduction in imports from Australia and consequently to reduce the total volume of trade between the two countries to proportions far less important than those which it

<sup>44</sup> *Ibid.*, November 1938, No. 181, p. 19.

<sup>45</sup> Australian trade figures given in this chapter unless otherwise stated are based on statistics in the *Official Bulletin of Overseas Trade, 1937-38*.

<sup>46</sup> Mitsubishi *Monthly Circular*, December 1938, No. 182, p. 7.

had assumed between 1931 and 1935, the Australian Government, on the contrary, has striven manfully though with small success to effect a restoration of trade with Japan to the former level. There have been numerous signs that the unfortunate experience of the trade war has led Australian leaders to adopt a more conciliatory policy in matters of international trade and in particular to renew their policy of encouraging trade with the Far East.

At the Imperial Conference of May 1937, the Australian Prime Minister, Mr. J. A. Lyons, stressed "the urgent need of wide policies of economic appeasement if their endeavours to bring about peaceful conditions in the world were to be successful,"<sup>47</sup> a purpose for which "the revival of world trade was of first importance." The Australian representatives at meetings of the League Assembly were particularly active in their advocacy of "economic appeasement." In announcing details of the trade agreement with Japan at the end of December 1936, Sir Henry Gullett declared that "the Commonwealth welcomes the settlement with the deepest satisfaction, and trusts that it will be followed by the renewal of our long and happy trading association with the great Japanese nation."<sup>48</sup> Apart from the limitation of textile imports from Japan provided for under the agreement, no further restrictions were thereafter placed on the introduction of Japanese goods to Australia. Moreover, the Australian Government has shown a tendency, since the trade war with Japan, to pay more attention to the political implications of its trade policy. It was announced early in 1937 that for the future, "trade policy will be decided with the advice and assistance of the Departments of Commerce, Customs, and External Affairs, so that political, as well as purely statistical considerations will have weight."<sup>49</sup>

In 1938, there were even more concrete evidences of the Australian Government's disposition to adopt a relatively liberal trade policy in respect to countries outside the British Empire, and especially Japan. The failure of Anglo-Australian trade discussions during the early part of 1938 to produce anything more advantageous to Australia than the continuance of the Ottawa

<sup>47</sup> A. J. Toynbee, *Survey of International Affairs, 1937*, p. 104.

<sup>48</sup> Ministerial statement issued December 27, 1936.

<sup>49</sup> H. L. Harris, *Australian Economic Policy* (memorandum submitted for the Twelfth Session of the International Studies Conference, 1939), p. 19.

arrangement on the old basis and the British recognition of Australia's right, in determining the extent of British preference in the future, to take into consideration, *inter alia*, "the need for new markets for Australian exports and for foreign trade arrangements,"<sup>60</sup> served to emphasize the fact that Australia could expect little permanent improvement in her share of the British market for her goods and must turn more and more to other outlets. Insofar as the subsequent Anglo-American agreement further weakened the system of imperial preference and cost Australia the advantage she had enjoyed over America in the British market for wheat since 1932, it served to drive home this point. It must be emphasized, however, that this agreement won fairly general approval in Australia, partly because of its political implications and partly because of the hope that it might pave the way for an Australian agreement with the United States which would make possible an expansion of the export trade to the latter country. So far as Australia's trade with Japan is concerned, these developments were extremely important because they implied the virtual abandonment of the idea of a self-contained British economic bloc which had lain at the roots of the Australian trade diversion policy.<sup>61</sup> Australia is not likely in the future to feel obliged to take such drastic action against Japan in the Imperial economic interest as it did in 1936.

Against this background it is not difficult to understand the conciliatory attitude of the Australian Government toward Japan in matters of trade since the beginning of 1937. The strong reluctance that has been shown to consider the imposition of economic sanctions against Japan as an aggressor is probably due almost as much to an appreciation of the value of the Japanese market, even though it is at present a dwindling one, as it is to the desire to avoid action which might be deemed provocative in a political sense.

Moreover, if Japanese press reports of April 1938<sup>62</sup> are to be relied upon, it would seem that the Australian Government was prepared at that time to help a revival of trade with Japan in a very positive way as well as setting itself firmly against any

<sup>60</sup> *Ibid.*

<sup>61</sup> N. F. Hall, *op. cit.*

<sup>62</sup> *Japan Chronicle*—Commercial Supplement, April 21, 1938, and *Finance and Commerce* (Shanghai), April 20, 1938, Vol. 81, No. 16, p. 309.

proposal for action of a negative character. These reports were to the effect that negotiations had been successfully concluded between the Kanematsu Company<sup>58</sup> and the Commonwealth Bank of Australia for the establishment of a credit of £A850,000 (¥12,000,000) in favor of the Japanese company covering imports of Australian wool to Japan. It was understood that this credit agreement was to cover wool shipments for May, June, and July, for which the last payment was to be made several months later. Previously Japanese importers had had to pay cash for their shipments within two weeks following the conclusion of each purchase, and such a credit would therefore be a very great boon to the Japanese buyers in view of the serious foreign exchange difficulties they had been encountering. The reports went on to say that the credit had been transferred by Kanematsu to the Ministry of Commerce and Industry and the latter in turn passed it on to the Raw Wool Import Association. The benefit was thus shared by seven firms belonging to the association and operating in the wool trade with Australia. The participation in the arrangement of the Australian Commonwealth Bank on the one hand and the Japanese Ministry of Commerce and Industry on the other would give the transaction a definitely official character which greatly enhances the significance of the reports if true. It has not been possible to obtain confirmation of the story from Australian sources but the Japanese reports are so specific as to give them an air of authenticity. Moreover there is no apparent reason to suspect Japanese papers of fabricating such a report and a certain amount of reticence on the part of the Australian authorities regarding such a substantial credit to Japan would be quite understandable in view of the public sympathy with China. It is not inconceivable that the credit, if actually given, was designed to create a more favorable atmosphere for discussions regarding the renewal of the Australian-Japanese trade agreement.

The terms of the new agreement as announced on July 2 are themselves an important indication of the conciliatory trade policy of the Australian Government toward Japan. It will be remembered that the first agreement concluded in December 1936 was made operative for a period of 18 months, during which the Japanese Government agreed to permit the importation of 800,000 bales of raw wool at the rate of 533,000 bales per

<sup>58</sup> One of the oldest and most important Japanese firms operating in Australia.

annum, and the Australian Government agreed to permit the importation of 76,875,000 square yards of Japanese cotton piece goods and a similar quantity of artificial silk piece goods at the combined rate of 102½ million square yards per annum. But while Japan actually took full advantage of the textile quota allowed her by Australia, her purchases of Australian wool fell far short of the 800,000 bales provided for in the agreement. A month before the old agreement expired she had taken only 503,040 bales, so that when the terms of the new agreement were being arranged it was quite clear that the 18-month total envisaged in December 1936 could not possibly be reached. Of course a promise to *permit the importation* of 800,000 bales of wool was not the same as a promise to *import* 800,000 bales, and the fact that actual purchases of Australian wool by Japanese wool buyers fell very far short of the amount specified did not in itself imply any breach of the agreement on the part of the Japanese Government. There are indications however that the Japanese Government did in fact use its powers of control over the use of foreign exchange to restrict purchases from Australia and to this extent it could be held responsible for the deficiency. Moreover it must be remarked that although Japan pleaded foreign exchange difficulties as the reason for her failure to purchase the amount of wool specified under the original arrangement, those difficulties had not been too great to prevent her importing more wool during 1937 from all sources than she had ever done in any previous year. Under these circumstances, and especially in view of its earlier anxiety to protect British textiles from Japanese competition in the Australian market, the Australian Government might well have been expected to seek a reduction of the textile quotas allowed Japan. It was certainly in a very strong position to argue for such a reduction. However no such move seems to have been made and in the new agreement the rate of admission of Japanese textiles to Australia remained the same as before except that staple fiber piece goods were included in the rayon quota. Since staple fiber cloth had little prospect of finding a market in Australia in competition with woolen cloth, this change involved no serious reduction in the effective quota for artificial silk piece goods.

On the other hand, the Australian Government recognized the difficulties confronting Japan as a result of the shortage of foreign exchange and instead of the Japanese Government

having to specify the quantity of Australian wool for which it would issue import permits, it was allowed merely to promise permits on the basis that two-thirds of Japan's total foreign wool requirements up to 500,000 bales would be purchased from Australia. In the event of Japan's total wool imports for the year exceeding 500,000 bales, three-quarters of the excess was to be taken from Australia. In addition the Japanese Government gave an assurance that the requisite foreign exchange permits would be granted to enable Australian wool to be imported into Japan in accordance with the terms of the new agreement.<sup>54</sup> The only important concession required of Japan in the new agreement was that she should recognize the Commonwealth's right to review the textile allotments if it appeared at any time during the following year that Japanese importations would fall short of 366,667 bales.

The agreement which came into force in July 1938 expired at the end of June 1939, and though not formally renewed remained substantially in effect since the Japanese Government voluntarily undertook again to see that two-thirds of Japan's wool requirements were drawn from Australia and "to maintain the orderly marketing" of their textiles in Australia. It was explained by the Australian Minister for Trade and Customs that the guarantee of "orderly marketing" required a limitation of cotton and rayon textile imports to Australia to the quotas fixed in the expiring agreement. One important difference between the new understanding and the old agreement is that the Australian Government now gives no specific undertaking to Japan and could quite legitimately reduce the textile quotas allowed to Japan. So far, however, it has shown no inclination to effect such a reduction.

Clearly the Australian Government made no attempt either in 1938 or 1939 to drive a hard bargain and on the contrary accepted arrangements under which most of the advantages went to Japan. But the conciliatory policy, of which the agreement of July 1938 and the understanding which replaced it a year later offer clear evidence, did little more than salvage the ruins of Australia's export trade to Japan. Whereas, in 1935-6, 12.95 per cent of Australia's total exports<sup>55</sup> went to Japan, Japa-

<sup>54</sup> Details of the 1938 agreement are taken from a ministerial statement of July 2, 1938.

<sup>55</sup> Including bullion and specie.

nese purchases constituted only 3.74 per cent of the total in 1937-8. On the other hand, Australia raised no fresh barriers against Japanese goods and it was thus possible for Japan actually to increase the volume of her exports to Australia, even during the first year of the war in China when her exports to most other destinations showed a marked decline. The falling off of exports to Australia in the last part of 1938 and the early months of 1939 can be attributed almost entirely to Japan's own domestic difficulties since there has been no fresh limitation of her opportunities from the Australian end.

One striking result of Japanese economic policy during the war period so far as Australia was concerned was the transformation of the trade balance which had long been heavily in Australia's favor into a slightly unfavorable balance for the year 1937-8. In 1935-6 the balance in Australia's favor was no less than £9,131,213 sterling but this dwindled in the following year to £3,739,346 sterling, and in 1937-8 the balance swung to Japan's favor to the extent of £579,622 sterling. From the Japanese point of view such a change was highly gratifying since it represented the successful elimination of one important leakage of foreign exchange with no great sacrifice of Japanese export trade. But for Australia the change meant the loss of a significant part of the export surplus which since the depression and the cessation of overseas borrowing has become a prerequisite for the maintenance of sufficient funds in London to pay for Australia's imports and to meet fixed interest charges as they fall due. This loss is the more unfortunate since it coincides with a fall in world prices for Australia's export staples and a marked increase in the volume of imports from all sources. Whereas, in 1936-7, Australia had a total export surplus of over £36 million sterling, the surplus amounted in 1937-8 to less than £12 million sterling. As already indicated the recession in Australia, which might have been expected as a consequence of these developments, has been at least temporarily averted by the new investment resulting from the large defense program and by an increase in the volume of certain key exports to England and Europe. But neither heavy defense expenditures nor the heavy buying which was part of Europe's preparation for war can provide a permanent solution of Australia's economic problems. And whereas in the last great depression the expanding markets of the Far East, and especially of Japan, afforded an

important measure of relief to Australia in her difficulties, the recent course of Japanese policy has not only put an end to that expansion but leaves little hope for its early renewal.

Such is the general picture of the effects of the Far Eastern conflict upon Australia's trade with Japan, but before passing to an examination of developments in Australia's trade with other parts of the Far East there are still two aspects of Australia's economic relations with Japan which must be mentioned briefly. The first has to do with shipping and the second with the fisheries on Australia's northern coast.

#### *Australian-Japanese Shipping*

Although the one British shipping company conducting a service between Australia and Japan, the Eastern and Australian Company, is predominantly an English rather than an Australian enterprise, the Australian Government has long displayed considerable interest in the fate of the line and in the effect upon it of Japanese competition.<sup>56</sup> Between 1895 and the end of the World War, competition in the Australian-Japanese trade was confined to the E. & A. Line and the Nippon Yusen Kaisha, but soon after the War, in response to the growth of commerce between the two countries, additional Japanese services were established by the Osaka Shosen Kaisha and the Japan-Australia Line, the latter being jointly operated by the Kawasaki, Kokusai and Yamashita companies. The E. & A. Line operates three vessels, each of approximately 7,000 tons, built in 1912, 1913 and 1914 respectively. The Japan-Australia Line's three vessels were built in 1919 and 1920, the N. Y. K.'s eight vessels between 1908 and 1921 and the five O. S. K. vessels between 1929 and 1936. Thus the Japanese ships already have the advantage of greater modernity, and in May 1937, the chairman of the N. Y. K. announced that his company had decided to build two fast passenger and cargo vessels to replace two of the old ones then employed on the service between Japan and Australia.

The British company has thus had to face increasingly severe competition from Japanese companies enjoying the advantages of liberal construction subsidies from their Government, prefer-

<sup>56</sup> Except when another source is indicated this account of Australian-Japanese shipping is based on information given in the 38th Report of the Imperial Shipping Committee in *British Shipping in the Orient*, London, 1939.

ential treatment by Japanese firms purchasing wool f.o.b. in Australia and lower operating costs, especially in respect of labor. A member of the Australian Government declared late in 1936 that the E. & A. Line was experiencing competition of a character which was likely, if allowed to continue unchecked, to force the line out of existence.

A certain check had in fact been applied to this competition in 1933 when the British and Japanese lines agreed upon two pooling arrangements, each current for two years. One covered the southward trade in general Japanese cargo and the other the northward trade in Australian wool. The southward agreement provided that the companies should pool 60 per cent of their receipts from the carriage of general cargo, with the share of the E. & A. Line fixed at 25 per cent. Under the northward agreement 50 per cent of the receipts were to be pooled and the share of the E. & A. Line was to be 20 per cent. The northward pooling arrangement was renewed in 1935 and the southward in the following year, but both expired during 1937 and discussions were begun in Tokyo late in that year between representatives of the companies, seeking a new basis of agreement. These negotiations, however, reached a deadlock after dragging on for several months.<sup>57</sup> It was reported that the Japanese firms proposed a reduction of the E. & A. Line's share of the cargoes to as little as one-sixth of the total, while the British representatives would agree to nothing less than 25 per cent of the cargoes in each direction.<sup>58</sup> Since the shipping question was held by the Australian Government to have a vital bearing on the negotiations for the renewal of the Australian-Japanese trade agreement then under way, both Governments intervened and a settlement was eventually reached in time to be announced simultaneously with the terms of the new trade arrangement. The shipping agreement which was to operate for two years from July 1938, provided that 50 per cent of the receipts for northward cargoes and 60 per cent of those for southward cargoes should be pooled, and of the pool so formed the E. & A. Company's share was fixed at  $22\frac{1}{2}$  per cent, leaving  $77\frac{1}{2}$  per cent for the Japanese lines.

The most significant feature of these developments was the part played by the Australian Government in the settlement of the dispute. Their intervention in what may be regarded as the

<sup>57</sup> *Oriental Economist*, April 1938, Vol. V, No. 4, p. 247.

<sup>58</sup> *Christian Science Monitor*, October 2, 1938.

private affair of the shipping companies, and the fact that they prevailed upon the E. & A. Line to accept a 22½ per cent share of the pool instead of the 25 per cent for which the company had stood out during the private negotiations, were significant evidence of the importance attached by the Government to the whole shipping question and more especially of their anxiety to remove all obstacles to the restoration of commercial relations between Australia and Japan to the former mutually advantageous basis. Of course, since the negotiations leading to the conclusion of the new Australian-Japanese shipping agreement were strictly confidential in character it is impossible to ascertain the precise nature of the interrelation between the two settlements, but one sentence in the report of the Imperial Shipping Committee issued early in 1939 gives a hint as to the course which may have been taken by the Australian Government during the negotiations. The report records that "A suggestion has been placed before us that if the Governments of Australia and India were prepared to make facilities for the sale in their markets of Japanese goods dependent on an equitable apportionment of their carrying trades with Japan with the object of securing an adequate share for the Empire mercantile marine, it is possible that an agreement for the reasonable sharing of the trade could be arrived at by direct negotiations between the ship owners themselves."<sup>69</sup> It would seem not at all unlikely that in the negotiations leading to the simultaneous conclusion of trade and shipping agreements between Australia and Japan in July 1938, the Australian Government did conduct its bargaining at least partly on the basis suggested in the Shipping Committee report.

While the arrangement which went into force in July 1938 has settled for a time the problem of cargo distribution as between the E. & A. Line and the Japanese companies engaged in the Australian trade, the sharp decline in Australia's export trade to Japan and the present falling off of the trade in the opposite direction are bound to create, and in fact have already created, new difficulties for all shipping over this route. The total volume of cargo available has dropped and the service built up in the days when Australian-Japanese trade was flourishing may have to be curtailed now that the trend is in the opposite direction. Freight rates may be expected to rise and

<sup>69</sup> 38th *Imperial Shipping Committee Report*, p. 106.

the tourist trade, once quite considerable, has already dwindled to negligible proportions because of the conflict in the Far East. On the whole the outlook for Australian-Japanese shipping in the immediate future is anything but bright.

The position of the E. & A. Company is less happy still than that of the Japanese lines, since even before the trade slump its share of the traffic was declining in the face of keen Japanese competition. It is possible, of course, that the British and Australian Governments may be moved by the recommendations of the Imperial Shipping Committee to come to the aid of the British company by making available building subsidies for new ships. Some such assistance would seem to be essential for the preservation of its existence in view of the Shipping Committee's statement that "the British lines plying between Australia and the Far East . . . are ships of such an age that they cannot normally be run at a profit when freights are low," and that "with the advent of a greater number of improved (Japanese) vessels, some of them already on the stocks, an intensification of competition may be expected."<sup>60</sup> The further recommendation of the Shipping Committee that, where possible, an equitable apportionment of cargoes should be arranged between the British and competing foreign lines has already been implemented so far as the Australian-Japanese trade is concerned, and although the E. & A. Company might question the equity of the apportionment actually arranged by the Governments, it has at least been given some measure of protection from Japanese competition for two years. A third recommendation, that British shipping lines should be given more support than in the past by British merchants, is likely to have little effect upon the fate of the E. & A. Line, partly because British merchants engaged in the trade between Australia and Japan are likely to continue choosing ships to carry their consignments on the basis of convenience and cost rather than on a patriotic basis, and more especially because almost all the northward cargoes and the larger part of the southward cargoes are shipped by Japanese merchants who tend to use Japanese ships. Even the Shipping Committee itself apparently felt no great optimism regarding the adoption of this particular recommendation: "Japanese shipping enjoys a very considerable measure of support from patriotic sentiment and public opinion in Japan, but British

<sup>60</sup> *Op. cit.*, p. 101.

shipping in the threatened trades of the Orient has no comparable support from the peoples of the British countries in and near that part of the world. It is natural that it should be so; those British countries are not themselves owners of much shipping, while Japanese shipping is one of the most important industries of Japan and recognized in influential circles in that country as an instrument for realizing Japan's ambition of becoming an ever-expanding power in the world and the dominant power in the Pacific.<sup>61</sup> Nevertheless, in urging the creation, "despite the separating breadth of the world," of "a sense and practice of partnership between the owners of the shipping in the United Kingdom and the producers of the cotton and wool in India and Australia," the Shipping Committee stressed the seriousness of the situation from the point of view of the British countries concerned: "Without cargo, the mercantile marine cannot flourish; without shipping under the British flag, the producers of India and Australia would in the long run be at the mercy of their foreign customers and of the foreign ship-owners." This last sentence points to the crux of the shipping problem so far as Australia is concerned and the view it expresses has almost certainly been the basic determinant of the keen interest and practical intervention of the Australian Government in the question of shipping competition in the Australian-Japanese trade.

#### *Australian-Japanese Competition in the North Australian Fisheries*

The problems arising from Japanese activity in the fisheries off the north coast of Australia are in many respects unique although they are comparable in some ways to the problems which have grown up in the salmon fisheries off the North American and Kamchatka coasts. Economically the North Australian fisheries are not of major importance either to Australia as a whole or to the world, but they do mean a great deal to the people of Australia's relatively undeveloped North and they do supply the world with the bulk of its not very large requirements of mother-of-pearl. Moreover, these fisheries have assumed a political significance out of all proportion to their economic importance because the "sampans" in which the Japanese fishermen come down to collect shell and trepang have become for the

<sup>61</sup> *Op. cit.*, p. 102.

Australian public a sort of concrete symbol of the Japanese "menace." Wild rumors to the effect that the "sampans" are commanded by Japanese naval officers, that they are charting the dangerous seas and spying out the land in preparation for a Japanese attack on Australia, that the "simple fishermen" are all equipped with expensive cameras, that they are winning over the aborigines by promises that they will be given large and frequent issues of flour and tobacco "when Australia belongs all same Japan,"<sup>62</sup> and so on, all find ready credence with a public traditionally suspicious of Japanese intentions. In fact, sinister stories about Japanese sampans in northern waters, taken up from time to time by the Australian press, have long been a most potent factor in keeping suspicion alive and many Australians have come to regard the fishing boats as the spear-head of a Japanese "Southward Advance," with Australia as the ultimate objective. Tangible evidence in support of such rumors is almost completely lacking, but rumors seldom if ever need the backing of established fact to ensure their circulation, and in this case the very prevalence of the rumors and the credence given them, however unjustified, are facts of considerable importance. So, too, are the developments which have taken place in the North Australian fishing industry during the past few years.

The North Australian fishing industry is concentrated chiefly around the three centers—Thursday Island in Torres Strait, Darwin in the Northern Territory, and Broome on the north-western coast of Western Australia. Most of the luggers engage in the collection of mother-of-pearl shell, but a few collect *bêche-de-mer*, otherwise known as trepang, a marine animal for which there is a considerable market in China where it is considered a great delicacy. The trepang fishery was carried on in Australian waters by the Malays far back in the eighteenth century,<sup>63</sup> and perhaps even earlier, but although it has been kept up ever since by the white man it is of relatively minor importance compared with the pearl fishery. Pearling is the term applied to the quest not only for pearls but for the shell from which mother-of-pearl, used in the manufacture of buttons, knife-handles and ornaments, is obtained. This shell, rather than the jeweler's pearls, forms the basis of the industry. The

<sup>62</sup> *Sydney Morning Herald*, December 12, 1936.

<sup>63</sup> G. W. Earl, "Enterprise in Tropical Australia," p. 2.

pearling industry dates back as far as 1868 when the first shell was discovered in Torres Strait. The first beds worked were in comparatively shallow water and Pacific Islanders were used as divers, under the direction of white men. As the shallower beds were worked out the natives were replaced by white men using diving apparatus, but the supply of white men able and willing to do this dangerous work was limited and it was not long before Japanese, who were found to be very efficient pearl divers, were introduced in fairly large numbers. By 1908, almost all the divers were Japanese, and a large proportion of the "tenders" and crews on Australian luggers were of the same race. In accordance with the White Australia policy, attempts were made to restrict the employment of Asiatic labor in the pearling industry. The question was investigated first by a Queensland Royal Commission in 1908 and then by a Royal Commission appointed by the Commonwealth. Pending receipt of the latter commission's report the introduction of Asiatic labor for the pearling industry was made permissible until June 1918. However, the Commission finally reported that the industry could not afford to employ only white divers, that Japanese divers were peculiarly adapted to the work and that the White Australia policy would neither be weakened nor imperiled by allowing the industry to be continued as hitherto conducted. As a result of this report no further action was taken by the Commonwealth. The pearling industry has thus remained the only one in Australia for which Asiatic labor may be imported and has come to depend almost entirely on Japanese divers.<sup>64</sup> Under the Pearling Ordinance of 1930, applicable to North Australia and its territorial waters, only British subjects or British companies can obtain the requisite "ship's license" to engage in pearling but an alien may obtain a license either as a "diver" or "diver's tender." British pearlers also require a permit to import Asiatic labor under three years' indenture with the obligation of repatriating the Asiatic at the end of the term. "These regulations sufficed to create a monopoly for British ships within territorial waters in North Australia."<sup>65</sup>

The whole situation of the Australian pearling industry was

<sup>64</sup> This information is drawn mainly from J. Lyng, *Non Britishers in Australia*, p. 174 *et seq.*

<sup>65</sup> A. H. Charteris, "Sampans in Territorial Waters," in *Austral-Asiatic Bulletin*, October-November, 1937, Vol. I, No. 4, p. 11.

changed, however, by the entry into extra-territorial waters, also monopolized hitherto by Australian pearlers, of Japanese-owned pearlting boats operating from Palau in the Japanese Mandated Territory and sub-bases in the Arafura Sea off Dutch New Guinea. Commencing about 1933, Japanese companies began to send down fleets of small boats each served by a mother ship which brought them supplies and relieved them of their shell. By 1936, 85 Japanese boats were said to be operating, by 1937, about 100, and in 1938 the Japan Pearl Company, the principal firm in the business, increased its capital sixfold and its boats to 150.<sup>66</sup> The entry of these Japanese fleets into the industry has already had a serious effect upon the position of the Australian pearlers. The total number of Australian ships licensed to operate in the northern fisheries, including those fishing for trepang, was 215 in 1935-6,<sup>67</sup> so that the competing Japanese fleet was comparatively a large one. The world consumption of pearl-shell is said to amount to approximately 4,800 tons annually, but in the 1937-8 season Japanese boats alone gathered about 4,800 tons, Australian boats 2,695 tons, and a further 405 tons or so was produced by the Netherlands Indies. Accumulated stocks in New York and London, where most of the shell is marketed, were thus sufficient to supply the world's needs for nearly two years, and the price fell markedly.<sup>68</sup>

Australian pearlers complain that the Japanese entry into the industry dooms them to extinction. The pearlting beds within Australian territorial waters, where the Australians enjoy a monopoly, are said at the moment to be seriously depleted, and on the pelagic beds Australian pearlers receive no legal protection from Japanese competition. The cost of fitting out and provisioning a boat is higher for the Australian owners than it is for the Japanese and they also have to pay higher wages. Moreover, despite the higher wages paid by Australian pearlers, the most expert Japanese divers are said to be transferring to the boats of their own countrymen. "The Japanese fleets operating out of Palau, are not burdened with the shore charges Australian boats must bear, operating from their own expensive country. The Japanese boats are newer and better

<sup>66</sup> C. Hartley Grattan, "Australia and Japan," *Asia*, November 1938, Vol. XXXVIII, No. 11, Section 2, p. 691.

<sup>67</sup> Commonwealth of Australia, *Official Yearbook, 1937*, p. 769.

<sup>68</sup> Grattan, *op. cit.*

equipped. The differential in favor of the Japanese obviously hampers Australian competition."<sup>69</sup>

The Japanese advantage in respect of labor and provisioning costs is offset to some extent by the long distance at which they must operate from their headquarters, and the greater expense and danger of working the pelagic grounds as compared with those inshore over which the Australians enjoy a monopoly. Moreover, the trochus shell of which a good deal is collected by the Japanese from the pelagic grounds is inferior in quality to the shell gathered in shallower waters. There is little demand for trochus shell in the American market which takes about 95 per cent of the total shell output and has until recently been almost monopolized by the Australian pearlers.<sup>70</sup>

The plight of the Australian pearlers has been sufficiently serious, however, to arouse the interest of the Commonwealth Government. In August 1938 a deputation organized by the Pearlers' Committee at Broome waited upon the Minister for the Interior, who was visiting the northwest at that time, and requested the Government's assistance. They urged, first, that a subsidy be granted them equal to the difference between the prevailing price of mother-of-pearl shell and £A120 per ton; second, that assistance be given by the Australian Trade Commissioner in New York in the establishment of a marketing organization in America; third, that advances should be made by the Government to the producers, secured on the shell and payable when it was warehoused or exported; fourth, that the Government should adjust the tariff on articles for use in the pearl industry; and fifth, that if the Japanese extended their operations to the West Australian fields an efficient patrol should be established by the Commonwealth in conjunction with the State Government, presumably to guard against poaching in territorial waters. As a result of this appeal the Commonwealth Government requested the Trade Commissioner in New York to furnish a report on the marketing of shell, and joined with the Government of Western Australia in guaranteeing repayment to the Commonwealth Bank of advances made against the season's production. In October 1938 it was announced that the other

<sup>69</sup> *Ibid.*

<sup>70</sup> Based on information furnished by Australian Government Trade Commissioner's Office, New York. Some pearl buttons are manufactured from the inferior trochus shell in Japan itself whither it is taken direct from the fisheries.

recommendations made by the Pearlers' Committee were still under consideration.<sup>71</sup> No subsidy had been voted up to the time of writing, but a small grant made to the Darwin pearlers in 1935-6 at least constituted a precedent for a measure of government assistance to the pearlers in time of difficulty, and the measures adopted indicated that the Commonwealth was not altogether indifferent to their plight in the face of serious Japanese competition.

However the problem is not merely one of protecting Australian pearlers against Japanese competition. It is complicated by the fact that the Japanese have been accused of poaching within territorial waters, trespassing on aboriginal reserves and interfering with aboriginal women. In order to guard against acts of this character a rather inadequate patrol consisting of two small luggers has been established to watch some thousands of miles of coastline, and in April 1937 an ordinance was gazetted imposing the penalty of forfeiture on any unauthorized vessel entering territorial waters adjacent to any aboriginal reserves.<sup>72</sup>

Two months later the Government patrol boat *Larrakia* arrested two Japanese pearlers, one of them a mother-ship, for infringing this ordinance. Much interest and a good deal of amusement was aroused in Australia and elsewhere when it was reported that the *Larrakia* had broken down on the way back to Darwin and had been obliged to have one of her captives take her in tow. A more serious aspect was given to the incident by the fact that during the process of arrest a number of shots had been fired by the *Larrakia* across the bows of the Japanese vessels. Both craft were ordered confiscated by the Administrator of the Northern Territory, their crews were deported and fines were imposed upon the owners. Subsequently a number of other Japanese pearlers were arrested and subjected to the same penalties. The Japanese owners appealed in every case and litigation dragged on in the Supreme Court of the Territory until late in 1938, when verdicts carrying heavy damages were given in favor of the appellants and against the Commonwealth Government. An appeal by the Commonwealth to the High Court of Australia has yet to be decided, but during the course of the Darwin trial, it was clearly revealed that the crews of Australian-owned luggers were offenders against the ordinance prohibiting

<sup>71</sup> *Australian Parliamentary Debates*, October 5, 1938.

<sup>72</sup> Charteris, *op. cit.*

trespass on aboriginal reserves as commonly as those of the Japanese vessels.<sup>73</sup> The difficulty of catching offenders in the act and the inadequacy of the existing patrol were also clearly demonstrated. The whole incident serves to indicate how much more is involved in the entry of Japanese fishing boats into the waters north of Australia than mere economic competition with Australian interests. The whole situation bristles with legal difficulties of the most complicated character and the possibilities of political friction are very considerable. So far, the decisions of the Supreme Court of the Northern Territory have gone in favor of the Japanese pearlers and there has been no occasion for the Japanese Government to intervene on behalf of its nationals. But an Australian Government anxious to avoid giving provocation to a powerful neighbor must assuredly be very conscious of the delicacy of the northern fisheries problem. The *Sydney Morning Herald*, which is not given to adverse criticism of conservative governments, sounded a reproving and a warning note in its editorial comment on the "Darwin Tragedy." The arrests of June 1937, it declared, "according to the judgement of the Court, were not shown to have been effected in territorial waters; and the firing of machine-gun bursts was a piece of unwarranted and provocative theatricality, to give it no harsher name. . . . To sanction such laxity as was exhibited in these astonishing transactions is to play with fire. . . . There is no desire to underestimate the difficulties of the Government and the Administration in policing the vast coast of Northern Australia, in protecting the aborigines, and in safeguarding Australian fishing rights. But the very difficulties, and the risks of provoking conflict with the Japanese, who, for good or ill, have come to share the wealth of Australian tropic seas, should make officials extremely careful in enforcing the laws and avoiding even the appearance of discrimination in relation to them."<sup>74</sup>

This account of the Japanese entry into the fisheries of North Australia constitutes something of a digression in a discussion which centers round the repercussions upon Australia of the conflict in the Far East, but no account of Australia's relations

<sup>73</sup> For a summary account of this arrest and trial see two articles by Lieut.-Commander Donald MacKenzie, R.A.N., in *Sydney Morning Herald*, December 7, and 8, 1938.

<sup>74</sup> *Sydney Morning Herald*, December 8, 1938.

with Japan during the war period would be adequate which ignored a development which has been so much in the public eye ever since the middle of 1937. The arrest of the Japanese luggers and the litigation which followed helped to remind Australians very forcibly of the nearness of one of the Far Eastern combatants to their own back door. The realization that the same power which was demonstrating its ambition and its might on the Asiatic mainland was also sending tiny pearl-luggers down to the coast of Australia's vast uninhabited North made the "sampans" look even more sinister to some Australians' eyes than they had done before, and it made Australian ears even more receptive to alarming rumors spread by those interests which were feeling the pressure of Japan's economic advance.

#### *Trade with China During the War*

The effects of the Japanese invasion upon Australia's commercial relations with China are much more difficult to analyze than the wartime development of Australia's trade with Japan itself. Each of the wide variety of items in the trade with China tended to fluctuate unaccountably even in the days of peace and these fluctuations have become even more difficult to account for under the disturbed conditions which have prevailed since the outbreak of hostilities. It will only be possible here to note briefly a few of the more important trade shifts and to indicate in broad terms some of the implications for Australia of the tremendous changes which China is undergoing.

The most striking development was the recovery in Australian exports of wheat flour to China during the first year of the war. Valued at only £A23,000 in 1936-7 they rose to £A281,000 in 1937-8, the largest figure since 1933-4 when Australian flour-millers were still enjoying the benefits of a temporary boom in the China market. As already indicated, it had seemed safe to assume in 1936 that the boom years were over and that Australia could expect little from the Chinese market for her flour in the future, but the war situation immediately reversed this declining trend.<sup>76</sup> The disruption of communications and the closing of the Chinese flour mills, concentrated in the Tientsin and Shanghai areas, were chiefly responsible for the very great increase in imports of foreign flour from which the Australian millers benefited along with those of the United States

<sup>76</sup> See above p. 67.

and Japan. According to Chinese Customs returns, total imports of flour rose from 280,000 barrels in 1936-7 to 1,712,000 barrels in 1937-8, and it was estimated that approximately 1,050,000 additional barrels were entered in 1937-8 from Japan and Manchuria without being recorded. The great bulk of this flour was destined for North China. Of the grand total for 1937-8 Australia provided 509,000 barrels, or roughly 18 per cent, as compared with 33 per cent provided by Japan and 6 per cent by the United States.<sup>76</sup> Australian flour has had a marked advantage in respect to price, underselling Japanese flour by as much as 32 cents a sack and American flour by 23 cents and it is this fact that has enabled Australia in effect to share with Japan the new market for flour which is one of the first fruits of Japanese conquest in North China.<sup>77</sup>

Australia's gain in respect to flour exports to China was more than offset, however, by a decline in exports of wheat from £A319,006 to £A37,000. It is true that over the same period she helped to provide Japan with additional wheat to be milled for export to China, but Australia's sales of wheat to Japan only increased by about £A20,000, whereas Japan increased her exports of flour to China from 9,000 barrels to 900,000 barrels. Thus the cessation of milling in China as a result of the war, which helped the Australian flour-miller increase his Chinese sales, meant a considerable loss to the Australian wheat grower—a loss for which he found no adequate compensation in increased purchases of wheat by Japanese and Australian millers.

In the 1938-9 season conditions changed again in the Far Eastern market for wheat and flour and Australia again felt the effect of the changes. Hostilities in wheat-growing areas meant that, for the second season in succession, China's wheat crop was a good deal smaller than usual, and whereas imports of wheat had been negligible in 1937-8, it became necessary in the new season to import wheat in fairly large quantities. By March 1, 1939, 4,650,000 bushels of foreign wheat had been brought in, and of the 18 cargoes reported ordered, 11 were from Australia and 7 from the United States. After the cessation of hostilities and the establishment of Japanese control in the Shanghai and Tientsin areas, the flour mills in these districts

<sup>76</sup> Based on figures quoted in U. S. Department of Commerce, *Foreign Crops and Markets*, September 24, 1938, Vol. 37, No. 13, p. 203.

<sup>77</sup> *Far Eastern Survey*, August 4, 1938, Vol. VII, p. 199.

began to operate again though on a reduced scale and this accounts to some extent for the renewed demand for foreign wheat; but the demand for foreign flour was also still strong. According to Chinese Customs returns flour imports into China from July 1938 to January 1939 totaled 1,466,000 barrels, as compared with 242,000 barrels recorded in the corresponding period of the previous year, though it should be noted that the earlier record was incomplete.<sup>78</sup> That Australia participated in the gain to foreign flour producers is indicated by an increase in the volume of her flour exports to China for the period July-December 1938 to 1,242,344 centals from 7,479 in the same six months of 1937.

No figures are yet available to show how Australia's share of the gain compared with that of the United States or Japan. Up till April, Japanese flour appeared to be still dominant in the North China market. Nevertheless it appears that Japan has been experiencing increasing difficulty in financing imports of foreign wheat, and accordingly it seems extremely unlikely that she will be able in the immediate future to maintain the volume of her flour exports to China at the present high level. From July 1938 to February 1939 Japan imported only 650,0000 bushels of wheat from all external sources, as compared with 3,253,000 in the previous corresponding period.<sup>79</sup> Up till April 1939 she had managed to maintain the value of her flour exports at a level even higher than that of the previous year, but the price of Japanese flour was the highest on record and, since stocks of wheat were not being replenished, an early decline in the volume of exports to China seemed inevitable. Such a decline might possibly open the door even wider to Australian and other foreign wheat in China and enable the Australian flour miller to reap an even richer harvest from China's wartime needs than he has already done.

On the other hand, Japanese millers have been expressing concern at the effect of Australian competition upon their trade in North China, where most of the flour is consumed. Early in 1938 they urged the Government to admit foreign wheat to North China freely for the exclusive use of flour mills operated by Japanese companies. It was also suggested that Japanese ex-

<sup>78</sup> *Foreign Crops and Markets*, Vols. 37, 39, *passim*.

<sup>79</sup> *Ibid.*

ports of flour to North China should be subsidized.<sup>80</sup> The importation of foreign wheat was temporarily restricted in the Japanese-controlled areas in the early months of the war,<sup>81</sup> but sheer necessity soon forced the authorities to admit both foreign flour and foreign wheat. But while it has not yet proved possible to give the Japanese milling companies all the protection they desire, exchange controls already hamper the importation of wheat and flour into North China somewhat as they do in other areas within the "yen-bloc," and there are constant rumors that more direct restrictions will be applied. The very fact that so far Japanese flour has maintained its dominant position in the North China market, despite the fact that its price is much higher than that of Australian and American flour, indicates quite clearly how Japanese political and economic control in this area has operated to the disadvantage of non-oriental millers. On the whole it may be said that the outlook for Australian wheat and flour in China is still much dependent upon the size of the domestic crop; for some time now military operations in the wheat producing areas have helped to reduce local wheat production and make the importation of foreign wheat and flour imperative. But under more favorable conditions, with the Japanese milling companies extending their operations in North China, there can be little doubt that the foreign exchange situation and the deliberate policy of Japanese-sponsored regimes will not only favor Japanese millers but perhaps lead to the complete exclusion of non-oriental wheat and flour.<sup>82</sup>

But while the Australian flour millers have, temporarily at least, improved their position in the Chinese market as a result of the war, other Australian exporters to China have not even enjoyed a temporary gain. Except for flour and tallow, every other item in the list of commodities regularly exported from Australia to China has shown a marked decline since the commencement of the war and the total value of all exports dropped from £A842,963 in 1936-7 to £A616,520 in 1937-8. The decline in Australian imports from China has been less marked, but that is no consolation to Australia for the fact that her dream of finding a rich market for her exports in China has been ren-

<sup>80</sup> *Japan Advertiser: Annual Review, 1937-38*, p. 58.

<sup>81</sup> *Foreign Crops and Markets*, March 19, 1938, Vol. 35, No. 11, p. 152.

<sup>82</sup> See John R. Stewart: *The War and Western Interests in North China, Far Eastern Survey*, October 12, 1938, Vol. VIII, p. 229 *et seq.*

dered even less capable of early realization than it was before the war. Among the indispensable conditions of any expansion of the Chinese market such as might benefit Australia were the maintenance of peace and order, the raising of Chinese living standards and the preservation of the "open door" to foreign trade. So far the door has not been shut against those commodities which Australia is best able to sell in China, even in the areas which under Japanese control have been more or less closed to other foreign products. But the restoration of peace and order in China is not likely to be easy and only lowering of living standards can be expected so long as the present chaos persists. In China, as in Japan itself, the contraction of imports from Australia is only one of a thousand possible measures of the extent to which living standards have been lowered by prolonged conflict. Moreover, it was demonstrated in an earlier chapter that Australia had a small but significant interest in the process of reconstruction which was under way in China before the war began; China was looking to Australia for sleepers upon which to lay her new railways and for wool for her infant textile industry.<sup>88</sup> But now railways are being torn up, industrial progress is arrested and destruction has taken the place of reconstruction. It may be that the ground is being cleared for the creation of a new and more prosperous China, but the fact remains that, whatever ultimate gain may result from the present struggle, its immediate effect upon Australia's trade with China has been for the worse except in the case of one commodity. Even in the exceptional case the gain seems likely to prove a temporary one.

#### *Australia and Manchukuo*

The third area where developments important for Australia have taken place as a result of the conflict in the Far East is Manchukuo. The only article of commerce between Australia and Manchukuo which has been of any significance during the war period has been flour, which Manchukuo has been obliged to import in noticeable quantities. Though small, Australian exports of flour to Manchukuo between July 1937 and June 1938 were considerably greater than those for the preceding twelve months. In 1937-8 Australia exported 238,811 centals of flour, valued at £A122,379, to Manchukuo, as compared with

<sup>88</sup> See above pp. 68-9.

188,438 centals valued at £A93,051, in 1936-7. The tendency prior to 1937 had been for the formerly large Manchukuoan imports of foreign flour, from which Australia had benefited considerably, to decline and it had been anticipated that they would shortly cease altogether. The increase in 1937-8 was the more surprising because the import restrictions and limitations on the use of foreign exchange applied in Manchukuo have been similar to those applied in Japan since 1937. Moreover, as pointed out earlier, Manchukuo is itself a wheat-producing country and has an important flour-milling industry. The increase in Manchukuoan purchases of wheat may be explained by the fact that the wheat crops in 1937 and 1938, like those of China, were smaller than usual. Other contributory factors may be the serious interruptions to which internal communications have been subjected by groups hostile to the Japanese-sponsored regime and possibly the re-export overland of flour to China.

As in the case of North China, the bulk of Manchukuo's increased imports of flour has been supplied by Japanese mills. This fact has no doubt helped to raise the volume of Japan's imports of wheat from Australia slightly, but the greater and more direct advantage to Australia has come in the form of increased Manchukuoan purchases from Australia direct. However, it is extremely unlikely that Australia's gain in this respect will be anything but a temporary one. Checks similar to those which tend in North China to limit and perhaps eventually eliminate the importation of Australian flour will undoubtedly operate with the same effect in Manchukuo where foreign exchange difficulties are the same, the import controls more drastic and the prospects of attaining complete independence of non-oriental sources of wheat and flour are greater in proportion to the degree of peace and political stability which has been attained and the completeness of Japanese control.

While the direct trade between Australia and Manchukuo remains almost insignificant despite the recent increase in the volume of Manchukuoan flour purchases, it is not to be assumed that developments in Manchukuo are important for Australia only insofar as they affect this direct trade. The indirect importance of Manchukuo for Australia lies in the fact that here Japan is finding to an increasing extent substitute sources of supply for raw materials for which she formerly looked to Australia. The same is true of course of North China, and the fulfillment

of the plan for a self-sufficient Japan-Manchukuo-North China economic bloc might mean the end of the greatly reduced but still valuable export trade to Japan, which Australia has so far managed to retain. This is a plan of which the general implications need not be discussed here since it affects every other country with a stake in the Far Eastern trade and will be fully treated in other studies in the present series. It will suffice to consider briefly the possibility sometimes envisaged that in Manchukuo Japan may not only find a supply of wool which will replace the Australian supply altogether but even develop wool production to a point at which it might compete with Australian wool in the markets of the world.

Of course a great deal of wool is already produced in Manchukuo, in Inner Mongolia and those parts of North China which are under Japanese control, not to mention the wool grown in China's far west which used to find its way to the coast through Inner Mongolia and Tientsin. But in the past this wool has been in no way competitive with the fine merino wools of Australia or even those of the second grade. The staple is coarse, its elasticity is low, it is usually delivered mixed with sand and dead hair, shows no standard and has other defects. The Mongols, who are the principal producers of wool in these areas, raise their sheep primarily to supply themselves with food, skins and felt for their tents, and to them the commercial use of the wool is purely incidental. The principal use abroad of wool from Manchukuo, Mongolia, and China has therefore been in the manufacture of carpets. The possibility of so revolutionizing the Mongol method of sheep raising as to bring about the production of finer wools suitable for the manufacture of textiles, is recognized, even by Japanese authorities, as being extremely remote.<sup>84</sup> Early in 1939 the *Oriental Economist* after considering the possibilities in Inner Mongolia would go no further than to express the pious hope "that while the Mongolian Provinces themselves attend to the matter of wool improvement, Japan for her part will meanwhile develop methods of using Mongolian wool in its present form."

Until a few years ago all the sheep raised in the area which is now Manchukuo were of the Mongolian breed and the difficulties confronting the Japanese in their efforts to effect any improvement in the quality of Manchurian wool were almost as

<sup>84</sup> *Oriental Economist*, January 1939, Vol. VI, No. I, p. 40.

great as those which they now face in North China. But whereas in North China the political and military situation is still so unsettled and plans for other types of economic development are regarded as being so much more urgent that no attempt is to be made to produce better wool before 1941, some progress in this direction had already been made in Manchukuo even before the present conflict began.<sup>85</sup> Sheep-breeding experiments have been carried on for some years by the Livestock Section of the South Manchuria Railway Company and on four experiment farms conducted by the Government. It was announced in 1938 that the S.M.R. experimenters had "finally succeeded in creating new and better breeds."<sup>86</sup> A few Australian merino stud sheep were introduced and crossed with selected Mongolian stock, and eventually a new type developed which it was claimed would yield three times as much wool per head as the ordinary Mongolian sheep. Details as to the quality of the new wool are not available, but the yield claimed for the best crossbred rams was only a little more than half that of Australian merino rams.

Even if the experiments conducted have been as successful as it is claimed, it is a far cry from this relatively small measure of experimental success to the establishment of flocks of high grade sheep sufficiently large to supply even Japan's dwindling wool needs. There would seem on the face of it to be little hope of persuading the more or less primitive Mongols to become modern scientific sheep-breeders, especially since from the Mongol point of view an improvement in the quality of wool would mean a decrease both in the hardiness of the sheep and in its meat value. Moreover, as Mr. Owen Lattimore has pointed out, "the sheep breeding plans which would benefit Japan would involve breaking down the independent livestock economy of the Mongols and making them dependent on a money economy."<sup>87</sup> There would seem to be more hope of success through encouraging Japanese settlers to devote themselves to sheep raising, but although it is along this line that most progress is to be expected, the numbers of such settlers are as yet comparatively small and development can only come very slowly.

<sup>85</sup> For details of the North China Development Plan, see *Japan-Manchoukuo Yearbook, 1939*, p. 931.

<sup>86</sup> *Ibid.*, p. 767.

<sup>87</sup> *Journal of the Royal Asian Society*, July 1936.

There is ample evidence that those who control the destinies of Manchukuo do not in fact envisage any immediate large-scale increase in the production of fine wool. The Five-Year-Plan which went into operation at the beginning of 1937 provided for the establishment of a new experimental sheep farm in addition to the four already in existence,<sup>88</sup> but it set up no production goals, and modification of the plan since the outbreak of hostilities in China will undoubtedly reduce the amount of capital available for the development of sheep raising. There does exist a "Thirty Year Plan for Sheep Wool Production" which sets a goal of 15,000,000 improved Mongolian merino crossbreds yielding 105,000,000 pounds of "good wool" by 1967,<sup>89</sup> but even such a long-range plan as this will be extremely difficult to implement.

On the whole it seems safe to conclude that the Australian grazier has little to fear, in the immediate future at least, from the competition of Manchukuoan wool, even in what remains of the Japanese market, much less in the other markets of the world. He certainly has much more to fear from the further development of the substitutes which have already reduced the Japanese demand for wool so substantially, and which will probably continue to do so. Indeed, it may well prove that Manchukuo, by providing a solution for the problem of pulp shortage, which alone offers any serious check to the further development of the Japanese staple fiber industry, will do more damage to Australian wool interests than it will by raising better sheep of its own.

#### *Trade to Other Eastern Countries*

In a chapter devoted primarily to the economic implications of the war in the Far East for Australia, there is little place for any detailed account of the shifts in Australia's commercial relations with those Far Eastern countries which have not been directly touched by the conflict. It is only necessary, in order to round out the story of Australia's relations with the Orient during the war period, to mention that in none of these other countries has Australia found any adequate compensation for the losses she has suffered in her export trade to China and more especially Japan. The value of her exports to Netherlands India,

<sup>88</sup> *Japan-Manchoukuo Yearbook, 1939*, p. 772.

<sup>89</sup> *Ibid.*, p. 766.

British Malaya, Hong Kong and Indo-China for 1937-8 showed a slight increase in each case, while exports to the Philippines were somewhat reduced. Imports from Netherlands India were substantially increased and those from British Malaya and the Philippines also rose slightly.

One effect of these changes, together with those already considered in detail, was to increase Australia's adverse commodity trade balance with all Eastern countries, as reckoned by the Commonwealth Statistician, from £A2,997,000 in 1936-7 to £A9,983,000 in 1937-8.<sup>90</sup> In view of the fact that the consistently favorable trade balance with Eastern countries, which Australia enjoyed in the years prior to 1937, was one major item in the general export surplus upon which she has come to depend to no small extent for her economic well-being, these figures give some grounds for concern.

### *Conclusions*

Despite the complexity of the reactions of the Far Eastern conflict upon Australia, the general fact emerges clearly that Australia has gained little and lost a great deal. The only noticeable gain consists in a revival of flour exports to China and Manchukuo, and clearly this advantage is one which will probably vanish as soon as order is restored in North China, whether by the Chinese or Japanese authorities or a combination of both. It may vanish even before hostilities end should the present Japanese sponsored regimes find it possible to apply in respect to flour the same discriminatory measures which are crippling the trade of the Western powers in other commodities. For the rest it is possible to see only loss from the Australian point of view. It is true that the decline in Australian trade to the Far East began over a year before the commencement of the present hostilities, that the Australian Government's own "trade diversion" policy helped to initiate the downward trend, and that Japan's general economic policy in the months between the end of the trade dispute with Australia and the beginning of armed conflict in China was such as to militate against a complete restoration of the highly favorable position which Australia had formerly enjoyed in the Japanese market. But the pressure of wartime needs has forced Japan to intensify and extend the measures which had already proved so damaging to the Aus-

<sup>90</sup> These figures are from an official press release issued on October 11, 1938.

tralian trade and rendered impossible even that measure of recovery in the import trade from Australia which might reasonably have been expected had peace been preserved. In the first year of the war Japan did manage to effect an improvement in her own position in the Australian market, but there have been indications that her internal difficulties may even lead to a serious decline in exports to Australia, despite Japan's urgent need of an export surplus and the generally conciliatory attitude of the Australian Government. Moreover, through the control which Japan already exercises over Manchukuo and a large part of China, she has been able so to subordinate the development of their economies to her own needs as to injure severely the economic interests of other powers including Australia. That the havoc wrought by hostilities has led to a reduction of China's import and export trade with the outside world including Australia, quite apart from any deliberate commercial discrimination by the Japanese authorities, is self-evident. The immediate effect of Australia's losses in the Far Eastern trade upon her internal economy has been offset to some extent by an armament boom at home and increased purchases of Australian staple exports in other parts of the world, but it seems safe to predict that the influence of these favorable factors will be of a more temporary character than that of the unfavorable developments in the Far East where Australia's losses may well prove to be permanent.

## CHAPTER VI

### CONCLUSION

In the series of studies of which this survey forms a part, Australia has been classified as a "Western Power," but in taking stock of her position *vis à vis* the countries of the Far East it is necessary to emphasize again the basic fact that although Australia's racial, political and cultural affiliations are with the "West," she lies geographically "on the borders of the East," and this fact along with a number of others has given her relations with Far Eastern countries a character essentially different from those of other "Western Powers." In many respects Australia's position is comparable to those of the Philippine Commonwealth, Netherlands India, New Zealand, Indo-China and perhaps Siam, rather than to those of Britain, France or the United States, and an arbitrary but useful distinction can be drawn between what one may describe as the Small Pacific Countries on the one hand and the Great Western Powers on the other.

For the Great Western Powers, the "Far East" is geographically remote, but for the Small Pacific Countries, it is very close at hand. Economically, the Great Western Powers think of the whole Far East as a field for investment, they think of China as a market for their manufactured goods, and they have come to think of Japan in recent years as a dangerous competitor in the markets of the world. The Small Pacific Countries, on the other hand, are themselves fields for investment and have no significant financial stake in Eastern Asia; they look upon the Far East as an important market, but for foodstuffs and raw materials rather than for the products of secondary industry; and Japan for them is a useful supplier of cheap manufactured goods instead of a dangerous competitor. From the political point of view, the most obvious difference between the Small Pacific Countries and the Great Western Powers is one of status—Australia, New Zealand and the Philippines have all achieved a high degree of political independence but they scarcely rank as

Great Powers, and their attitude toward the Far East is inevitably colored by the realization that they are small fry compared with other states of the first magnitude which interest themselves in Far Eastern affairs. None of the Small Pacific Countries, except Siam, has yet assumed complete independence in the conduct of its foreign relations, and the attitudes adopted by all save Siam are still influenced more or less by the policy of one or other of the Great Powers. And finally, the problem of security as affected by developments in the Far East is an infinitely more vital one for the Small Pacific Countries than it is for the Great Western Powers. If the worst comes to the worst any one of the Great Western Powers could conceivably survive the loss of its interests in the Eastern hemisphere, just as a man may survive the loss of a limb, but to the Small Pacific Countries, situated on the very borders of the East, the problem of security is one of life and death.

It is vitally important that in discussing the interests and policies of "Western Powers" in the Far East, some broad distinction such as this should be borne in mind. The role of the Small Pacific Countries in the political and economic development of the Far East may not, in the past, have been as important as that played by the Great Western Powers but it is likely to become extremely significant in the future; and so far as the Small Pacific Countries themselves are concerned, it is quite clear that their development has been, and will continue to be, profoundly influenced by what happens in the Far East.

Bearing in mind the fact that Australia is a Small Pacific Country, it may be useful to recapitulate briefly certain of the more significant points which have emerged from the detailed analysis given in the preceding sections of this study, mentioning first some of the more important ways in which changes in the Far East have influenced Australia and then some of the ways in which Australia has influenced developments in the Far East.

The Sino-Japanese war of 1894-5 did much to crystallize the Australian attitude toward the Far East in its modern form. It led to a transfer of earlier Australian fears of a "yellow peril," conjured up as a result of Chinese immigration during the era of the gold discoveries, from China to Japan—the latter then revealed for the first time as a rising modern power. On the other hand, reports of rapid Japanese industrial development

which first began to attract serious attention in Australia in the period during and after this war, when the question of colonial adherence to the Anglo-Japanese Commercial Treaty was under discussion, gave rise not only to new fears that the "yellow peril" might assume the form of an invasion of the Australian market by Japanese goods but also to new hopes that Australia might find in Japan a valuable market for her own primary produce. These hopes and fears played a not unimportant part in the domestic political struggles which accompanied the birth, and influenced the character, of the Australian Commonwealth. Supporters of tariff protection and a "White Australia," who were dominant in the first Federal Parliament, wrote onto the statute book legislation designed to guard the country against invasion either by Oriental immigrants or Oriental goods. They and their early successors also laid the foundations of a system of military and naval defense to meet possible attacks of a more dangerous character; although the Anglo-Japanese Alliance was felt to offer the best security against any armed invasion from the Orient.

Dreams of a vast market for Australian produce in the Far East proved slow of realization, but some progress was made in Eastern markets even before the World War, and prospects brightened still further during the War period when Japanese industry received a fresh stimulus and began to look to Australia for the raw materials of which European supplies had been cut off. But even before the War was over, Japan's occupation of part of the former German colonial domain in the Pacific, and Britain's recognition of her right to retain control of the islands north of the Equator had roused long-dormant Australian fears, and made the Australian Government more anxious than ever to retain permanent sovereignty over its own share of the spoils.

Disputes at the Paris Peace Conference over the mandate question and more especially over the Japanese demand for recognition of the principle of "racial equality" not only brought Australian suspicions of Japanese ambition very much to the forefront, but raised again the issue of Oriental immigration which Australians had long regarded as a settled question so far as they were concerned. However, the problem of the mandates and of "racial equality" were both "solved" more or less to Australia's satisfaction, and Australian suspicions of Japan receded once more into the background. The system of collective

security set up under the League Covenant, supplemented by the Washington Treaties, replaced the Anglo-Japanese Alliance as Australia's guarantee against Japanese attack, and she was able once more to concentrate her attention upon domestic affairs, more or less forgetting the Far East. The progress made in commerce with Eastern Asia during the World War was maintained in the 'twenties though at a slower rate, but it attracted no great attention except in commercial circles.

The coincidence of the world depression with a new burst of industrial activity in Japan proved extremely fortunate for Australia in the difficult years after 1929. Forced to rely more than ever on her export trade, Australia found in the Far East, and especially in Japan, an expanding market for her raw materials and foodstuffs at a time when most other markets were rapidly contracting. Australia also felt the effect of Japan's own drive for export markets, but cheap Japanese manufactured goods were a boon to people whose incomes had been drastically reduced by the depression; it so happened that they did not compete to any important extent with the products of Australian industry; and the balance of trade was heavily in Australia's favor. Accordingly Australians began to look with more interest and approval than ever before toward the countries of the Far East, and the view gained ground that the complementary economic needs of Australia and her northern neighbors—the latter requiring foodstuffs, raw materials and markets for manufactured goods, and Australia able to offer them on a basis very advantageous to herself—might make possible not only the growth of a mutually profitable commercial relationship, but even be the means of establishing a more friendly political understanding. The despatch of Australian commercial and diplomatic missions and the appointment of permanent official representatives of the Australian Government in Far Eastern countries offered concrete evidence that this view was strongly held in official circles.

Two important adverse factors, however, were operating even in the years between 1932 and 1935 when the outlook for the improvement of Australia's political and economic relationships with the countries of the Far East was brightest. On the economic side there were sections in Australia and in England who viewed with alarm the fact that to some extent the advance of Japanese goods, especially textiles, in the Australian

market had been achieved at the expense of English interests especially those of Lancashire. These groups pressed the view, with increasing force, upon the Government and the public that Australia's favorable position in the Japanese market might be bought at too high a price if it involved the forfeiture of English goodwill and eventually of the extremely important United Kingdom market for a wide variety of Australian products. The second adverse factor was the growing uneasiness in Australia aroused by political developments in Europe and the Far East. The chief grounds for alarm were the progressive disintegration of the collective system, under a series of blows of which the first was dealt by Japan in 1931, and the increasing fear that Britain, hitherto regarded as Australia's chief bulwark against foreign aggression, might soon become so involved in Europe as to be unable to spare the necessary naval force for Australia's defense in the Pacific. These developments, and especially the fact that Japan, traditionally regarded as Australia's potential enemy, had not only abandoned and successfully defied the collective system and the Washington treaties, but subsequently aligned herself at least morally and perhaps more fundamentally, with the Fascist aggressor nations of Europe, all helped to arouse in an increasingly acute form the old Australian fear of a Far Eastern "menace."

The factors adverse to the development of closer commercial and political relations between Australia and Japan triumphed in May 1936 when the Government unexpectedly launched its unfortunate "trade diversion" policy, the effect of which was to turn the tide of trade with Japan against Australia. The trend, which this Australian policy began, continued after the end of the trade dispute, at first because of Japan's anxiety to free herself from what was felt to be undue dependence upon Australia as a source of raw material supply, and later because with a war in China on its hands the Japanese Government had to intensify the drive for self-sufficiency. The result has been that despite all the efforts of the Australian Government to remedy the damage done to trade relations with Japan by the trade dispute, there has been progressive deterioration instead of recovery—deterioration caused by developments in the Far East over which the Australian Government could exercise no control. Moreover the deterioration has not been confined to the trade with Japan. Except in the special case of one commodity where a temporary

gain has been registered, disorder and destruction resulting from the war in China have cost Australia a substantial share of her trade with that country as well. Australia has thus been confronted with a sharp decline in her export trade to the Far East at a time when falling world prices for her staple exports seemed likely to create commercial and financial difficulties such as she had not had to face since the years of the depression. The seriousness for Australia of the decline in her Far Eastern export trade may be even more fully appreciated when it is realized that Eastern Asia was the one important region which seemed to promise an expanding market for Australian produce. If the contracting tendency now manifest in the Far East should continue either as a result of a triumphant Japanese policy of autarchy or the development of substitutes for Australian raw materials, Australia may well find it necessary to abandon all hope of further substantial expansion in the volume of her export trade. Insofar as Australia's economic progress, like that of the United States in earlier years, has depended very largely upon the steady expansion of the world demand for its primary produce, such a situation as has been envisaged will, if it arises, render necessary a profound readjustment of the whole Australian economy.

It may be that in the other Small Pacific Countries, outside Japan's immediate sphere of influence, such as Indo-China, Siam, Netherlands India and the Philippines, Australia will be able in the future to expand her sales of foodstuffs, taking in return the oil, rubber and other tropical products for which her rapidly expanding secondary industries will create an increasing demand. She may even find in these countries a market for the products of some of those new secondary industries. Unless these little countries find security through a restoration of international order in the Pacific, they are likely to welcome the readily accessible supply of armaments and military equipment which Australia will be able to provide if present plans are carried through to completion. But trade with the Small Pacific Countries is unlikely ever to yield to Australia the export surplus which was one valuable feature of her trade with Japan; progress so far made in the sale of foodstuffs to these countries has been slow and there is no reason to expect any more rapid development in the immediate future; and an export trade in armaments to the Small Pacific Countries would be an unhappy

and inadequate substitute for the lost trade in wool to Japan. Nevertheless, more hope for trade improvement lies in this direction than in most others and whatever may happen elsewhere Australia would do well to cultivate her relations with the other Small Pacific Countries whose position is similar in so many respects to her own.

On the political side as well as the economic, recent developments in the Far East have had serious implications for Australia. The renewal of Japan's military advance on the Asiatic mainland, attended by all the horrors of modern warfare and apparently implying a determination on Japan's part to create for herself a vast and powerful empire in Eastern Asia in defiance both of international agreements and world opinion, has not only created in Australia a strong humanitarian antagonism toward Japan, but, more important still, it has aroused in an acute form the deep-rooted suspicion that Japan's imperial ambitions may not be limited to the Asiatic mainland and may sooner or later threaten the Indies and Australia itself. The occupation of Hainan and the Spratly Islands was widely regarded as offering confirmation of this suspicion. Even those Australian observers who discount the possibility of an unprovoked Japanese attack upon Australia are very conscious of the danger of a clash between Britain and Japan in the Pacific as a consequence of the immediate threat to British and allied interests in China and Southeastern Asia, and it is realized that in the event of such a clash Australia must inevitably be involved. As emphasized in an earlier chapter, the immediate stimuli behind the unprecedentedly large and constantly expanding defense programs, upon which Australian attention and effort have been increasingly concentrated since the latter part of 1937, have been developments in Europe which threatened to involve Britain and her whole Empire. But for Australia the constant and more immediate danger was clearly felt to lie in the Far East. The chief importance of successive European crises lay, from the Australian point of view, in the fact that they appear to have reduced Britain's ability to spare a naval force adequate for Australia's protection in the Pacific. At the time of the last European war the Anglo-Japanese Alliance freed Australia from anxiety at home and enabled her to concentrate her effort upon aiding the mother country in Europe and the Near East, but Australian defense plans since 1937, though launched in

response to threats of war in Europe, were primarily designed to protect Australia itself against a danger apprehended in the Pacific. If there were no danger of war in the Pacific, elaborate Australian plans for home defense and for aiding Britain in the defense of her Eastern interests would be meaningless. Such a war in the Pacific involving Australia could only originate in the Far East and might only too easily grow out of the present conflict in that region. The causal connection between the present course of Japanese policy, and the present Australian defense program is therefore very clear.

Just as in the 'nineties of the last century, the belief in a "menace" from the East exerted a strong influence upon the political and economic life of the Australian colonies, so after 1936 the same belief, well or ill founded, coupled with concern over the course of events in Europe, led the Australian Commonwealth to strengthen itself not only in the military sense but economically and politically as well. The organization of man-power and economic resources, the co-ordination and extension of secondary industrial activity in the national interest, the development of machinery for more effective co-operation between the Commonwealth and State authorities, and the drive for a more rapid development of the dependent territories, are only a few of the more important changes which are being consciously wrought in the national life, and which are attributable, at least in part, to concern over developments in the Far East. There is also a deeper underlying change of which most Australians are apparently less conscious than they are of the Government's more spectacular "defense" measures; it is a trend of which the censorship of broadcasting, attempts to stifle private criticism of the policies not only of the Australian but of other governments, the virtual compulsion of waterside workers to load war materials for Japan against their strong private convictions and a number of other restraints imposed upon freedom of speech and action are all symptomatic. There is a very real danger that consciously or unconsciously the democratic liberties of the Australian people will be seriously curtailed in the effort to cope with a situation created by forces hostile to democracy. There is also a danger that vested interests opposed to social progress will use what is believed to be a national emergency as a means for consolidating their own position and sabotaging attempts to improve the economic position of the

people as a whole. The postponement and modification of the national insurance scheme, which has already followed the heavy increase in defense expenditures, may or may not have been necessary, but there are those in Australia who have been only too willing that this should be the first sacrifice "in the national interest," and who will doubtless press for further sacrifices of a similar character on the part of those who have least to give.

Such are some of the ways in which the course of events in the Far East has affected Australia. That the recent record has been one of loss from almost every point of view is clearly evident, and it should also be obvious that Australia has everything to gain and nothing to lose from an early restoration of peace in the Far East and security in the Pacific. It remains to consider briefly the role that Australia has played and is likely to play in the affairs of the Far East itself.

From the point of view of the Far Eastern countries, Australia has only become a factor of importance in comparatively recent years. The Australian refusal to admit immigrants of Asiatic origin as settlers within her territory has, of course, been a minor thorn in the flesh of both China and Japan for many years, but it is a thorn which has hurt the national pride rather than the national interest of these countries, and cannot in itself be regarded as a major determinant of the policy of either of them.<sup>1</sup>

However, as a supplier of foodstuffs and raw materials and as a market for their goods, Australia actually became extremely important to the Far Eastern countries, more especially Japan, during the early years of the present decade. Japan looked to Australia for almost all the fine wool needed by her rapidly expanding textile industry, and to some extent for foodstuffs as well. Japan also found in Australia, despite a traditionally high tariff and the marked preference accorded to British goods, a large and growing market for the products of her industry, especially cotton and rayon textiles.

The Australian "trade diversion" policy temporarily closed

<sup>1</sup> One reader of this manuscript questions this assumption, feeling "that the refusal of the United States, Canada and Australia to accept the principle of racial equality vis-a-vis the Japanese does color Japanese thought and influence Japanese national policy. 'National pride' is probably a more important element in the Japanese character than it is in the Australian character, with its more materialist standards of conduct and 'success in life' and its tendency to view all things 'economically'."

this market for Japanese textiles, and by her action in the imperial interest Australia made her small but significant contribution to the feeling on Japan's part that she was being shut out of the markets of the world and thus deprived of the very means of her existence—a feeling which undoubtedly helped hasten Japan upon her present career of Asiatic conquest. Australia also helped to confirm Japan in her conviction that her dependence upon foreign sources of essential supplies constituted a weakness in her economy and in her national armor which must at all cost be remedied. To this extent the Australian Government, in effect though quite unintentionally, strengthened the hand of those groups in Japan which argued that she must seek sources of supply nearer home and under her own direct or indirect control. Furthermore, the trade dispute with Australia in 1936 gave Japan experience in the technique of regulating industry and commerce in the national interest—experience which was to prove extremely valuable in the years immediately following.

When the trade dispute was over, Japan was able very largely to re-establish her position in the Australian market without returning to her former position of dependence in respect of wool supplies. She has ever since found the Australian Government conciliatory and obliging in its anxiety to smooth the way for a restoration of trade between the two countries; this is an attitude which Japan has encountered in few other parts of the world. The only respect in which Australian policy has appeared to be other than propitiatory toward Japan, since the end of the trade dispute, is in the imposition of the embargo upon exports of iron ore, and here the Australian Government seems to have been motivated by purely domestic considerations and to have had no intention of embarrassing Japan. However, the Japanese Government almost certainly attached a great deal more importance to the ore which was to come from Yampi Sound than the Australian Government realized; iron ore at the moment is a far more vital raw material to Japan than wool has ever been, and she will not find it easy to obtain elsewhere the 10 per cent of her estimated annual needs which she had hoped to draw from Australia. Just as Australia between 1932 and 1936 became one of the principal sources of raw material for the Japanese textile industry, so she might have become one of the more important providers of raw material for the heavy in-

dustries to which, under stress of war, Japan's economic energies have been transferred. But through no desire on the part of the Australian Government to hamper the development of heavy industry in Japan, but rather because Australia is seeking to build up her own heavy industries, such a development has been frustrated. Japan has almost completely freed her textile industry from dependence upon Australian wool, and through the action of the Australian Government the possibility that Japanese heavy industry might draw a significant share of its iron ore requirements from Yampi Sound has been ruled out. In other words, Australia for the time being at least has ceased to occupy the important position among the suppliers of raw materials to Japan which she assumed during the years of the world depression and retained until 1936.

So far as China is concerned Australia's chief importance has been as a supplier of those marginal requirements of wheat and wheat flour, the extent of which varies according to the size of the domestic crop. In the depression years Australian wheat and flour gained a price advantage over the produce of other countries in the China market, which they have retained to a greater or lesser degree ever since. In the years immediately preceding the present Far Eastern struggle China's requirements of foreign wheat and flour were dwindling, but military operations in the wheat-growing and flour-milling areas of the north have led to a renewal of the demand for foreign flour, the largest proportion of which has been met from Japanese sources. Australia, however, has supplied flour to North China in large quantities and ranks second in importance to Japan in this respect. But apart from the exceptional case of wheat-flour, Australia's economic importance for China has declined as a result of the present setback to the process of reconstruction which was under way before the outbreak of hostilities.

Should Japan succeed in establishing a vast self-sufficient empire in Eastern Asia, it may well be that Australia will cease to be important economically either to Japan itself or the areas under its control, except possibly as a market for manufactured goods. Politically and strategically, however, Australia would remain a significant factor, more especially if Japan should seek to extend its imperial sway further southward to territories now held by France, Britain and the Netherlands. At the moment a strong effort is being made to transform Australia into a British

stronghold in the western Pacific—capable not only of defending itself but of serving as a base of operations for British forces, and a source of food and munitions supply for other territories in the Indies and the South Pacific.

Even from the point of view of Japan, and certainly from that of Australia, such relationships as would be created between the two countries by further development along these lines would be far less satisfactory than that which promised to grow up in the years before 1936, when a mutually profitable exchange of Australian raw materials and foodstuffs for Japanese manufactured goods seemed likely to provide a solid economic basis for a cordial political relationship. As it is, each country is now making great sacrifices in order to ensure its "national security;" Japan is deliberately depriving herself of Australian and other foreign raw materials and foodstuffs because she fears dependence on foreign sources of supply, and Australia is spending vast sums to create uneconomic industries and instruments of destruction because she fears Japan. Each in the long run must be the poorer, and it is highly questionable whether along the paths they have chosen either country can make itself really "secure." Australia at least would willingly abandon her present course could she be freed from the fear which now oppresses her. But the solution does not lie in her hands and she can only stand and wait while forces over which she has little or no control work themselves out.

Should events take a happier turn than they seem likely to do at the moment and an opportunity arise to effect a settlement of the present conflict in Eastern Asia along more rational lines than those of warfare, it is conceivable that Australia might make a contribution to peace which would not be altogether insignificant.

To the solution of Japan's basic problems she could offer a good deal. She is able and willing to supply Japan with many of the raw materials and foodstuffs the latter needs, and given a degree of reciprocity she could well afford to open the door a good deal wider to the products of Japanese industry than she has so far done. Indications are not wanting that even under present conditions the Australian Government is prepared to make trade concessions to Japan in return for a renewal of Japanese purchases of Australian wool; and that tendency would be infinitely stronger if trade concessions were the price of

security. Moreover, it is probable that even iron ore, the one raw material which Australia has denied Japan, would be made available if it became possible for the manufacture of armaments in Australia to cease, and if an assurance could be given to the Australian people that Japan wanted the iron for purposes of peace rather than those of war. Even now the Australian Government is prepared to allow the sale of pig iron to Japan for whatever use she pleases.

It must be noted that any proposal to give Japan freer access to the Australian market for manufactured goods would in practice have to take English interests into account. The importance and power of those interests was demonstrated in 1936, and they must obviously be reckoned with in any future modification of the basis of trade between Japan and Australia. But British and Japanese commercial interests are not in fact as irreconcilable as they have sometimes been represented to be, and it should be possible, at least in the field of textiles where the main conflict has hitherto occurred, to make an arrangement whereby both parties could enjoy a substantial share of the Australian market. Mr. J. G. Crawford has indicated one possible line of approach to this problem which should be fruitful; he argues that if Australia's textile import policy is to be determined in the interests of Lancashire, then Great Britain should be prepared to restore the Open Door in her colonies. "Such action," he suggests, "would be in the interests of the natives, and would open up low price markets which Japan, more than Lancashire, is in a position to exploit. In these circumstances Japan would be more amenable to British preferential treatment in the Dominions."<sup>2</sup> Another of Mr. Crawford's suggestions for the resolution of the problem of Anglo-Japanese competition in the Australian textile market is that "consideration might be given to percentage quotas for Japan, which will enable her to share with Lancashire any expansion in Australia's imports."<sup>3</sup> Such an arrangement as this would be much more equitable than the present one which sets an absolute limit to the quantity of Japanese textiles which Australia will admit. If the Western powers are to demand the preservation of the Open Door in China, they can scarcely expect to keep the door to markets under their own control permanently shut against

<sup>2</sup> W. G. K. Duncan (ed.), *Australian Foreign Policy*, Chapter III, p. 88.

<sup>3</sup> *Ibid.*, p. 89.

Japanese goods, and even small powers like Australia can contribute much to the solution of the problems of the Far East by opening their doors rather wider to Japanese goods than they have hitherto done.

While Australia could and probably would under favorable conditions contribute a good deal to the solution of Japan's economic problems by making available a larger share of her market to Japanese goods, and by giving Japan freer access to Australian raw materials, there are two types of concession which, though they might be asked, no Australian Government would willingly grant. In the first place any territorial concession is completely out of the question. Even the dependent territories under Australian control are much too important strategically, and their actual and potential economic value is much too great, to make any cession of this kind in the least probable. And in the second place nothing short of force is likely to persuade Australia to lower the barriers she has erected against Asiatic immigration and settlement. Whatever justification it may or may not have, the "White Australia" policy is an article of national faith, held firmly for nearly half a century, and thus not readily to be shaken. No government which suggested its modification could possibly survive. It is extremely important to note that today the policy rests no longer on the basis of racial antipathy in the ordinary sense—Chinese and Japanese resident in Australia are accepted socially with the utmost cordiality, and few Australians have any illusions about "white superiority" either in cultural or other fields. But the very cordiality and respect with which Asiatic residents and visitors are received is due in no small measure to the fact that since the gold-rush days Australia has been almost completely free of the social and economic problems which tend to arise when large groups of people distinct in appearance, language, culture and economic standards live side by side. There is in the Australian attitude none of the bitterness which, to take one example, characterizes the feeling of white residents of California toward the Japanese who have settled among them. Most Australians believe in the "White Australia" policy not because of any negative prejudice against the people of the Orient but rather because of a positive prejudice in favor of preserving Australia's racial uniformity.

Moreover, most Australians believe that unrestricted Asiatic immigration would menace existing living standards in Australia, and no scheme for the regulated admission of Asiatics under conditions which would guarantee the preservation of those standards has yet been suggested. Even if some such scheme were devised it would be extremely difficult to convince the Australian public of its feasibility no matter how respectable or disinterested its sponsorship might be. "The Australian standard of living" is a concept as sacrosanct among the national articles of faith as the "White Australia" policy itself and the two ideas are closely interrelated. In fact the "standard of living" concept is more fundamental than that of a "White Australia," and it has led many to urge the limitation of immigration from Southern European countries and more recently still of Jewish refugees.

It is true that many Australians who cherish the "White Australia" policy and are jealous of "the Australian standard of living" are at the same time uneasy over the smallness of the country's population and feel that in the interests of security it should be increased. But the problem of increasing the population without lowering the standard of living is an extremely difficult one and so far attempts at its solution have been limited to proposals for the renewal of assisted immigration from the United Kingdom which as yet have only been implemented on a small scale. Moreover it must be noted that while a sense of insecurity lies behind the strenuous efforts to revive European and especially British immigration, the same feeling would serve only to intensify opposition to any move to admit Japanese immigrants. Quite apart from the various historical and economic objections which would be raised, the recent course of Japanese policy has engendered so much suspicion in the Australian popular mind that any suggested modification of present immigration policy in Japan's favor would be generally denounced as madness comparable only to that of the Trojans who took the wooden horse within their walls.

It must be admitted that Australian immigration policy, insofar as it reflects the deep-seated prejudices of the Australian public, is determined as much by emotional as by rational factors. But even on a purely rational basis there is much to be said in favor of a policy designed to preserve Australia from

racial conflicts and to protect her living standards.<sup>4</sup> However, one other fundamental consideration must be borne in mind by those who find the case for a "White Australia" unsatisfactory even when rationally stated on these grounds.

Although some proud Australians, and apparently many others in the world, firmly believe that because Australia is large in area, it could carry a much larger population than it now does, the fact remains that Australia's "vast empty spaces" are likely in view of their geographical character to remain as "empty" as they are "vast" whatever immigration policy the rulers of the land may adopt. There are indications that the pressure upon Australia to open her doors much wider than in the past to immigrants from Asia, and from Europe, will become increasingly intense in the near future. But it must be realized that the feelings of the present population and the present Government will in the long run be less important determinants of the volume and character of immigration and settlement in Australia than the facts of geography and economics. A recent writer has put the position very well:

"Every expert investigation has shown that Australia has no empty and fertile areas. The fertile areas are already occupied, and Australia's responsibility is to determine what are the possibilities of more intensive settlement in those areas, and whether the possibilities for intensification are larger than can be used by a population growing at the present rate. Mechanization of rural industry has, moreover, diminished rather than increased opportunities for employment on the land. . . . What might be done can possibly only be determined by trial and error under conditions of world markets and investment that cannot be predetermined."<sup>5</sup>

As this statement clearly indicates Australia's capacity to absorb additional population is very much more limited than crude comparisons of area might lead one to suppose. New areas fit for settlement are not readily to be found and the lack of markets for the produce of such areas as might be able to carry new settlers is almost as great. In other words, geographical and

<sup>4</sup> For a good statement of the case see M. Hentze, "Australia and Oriental Immigration" in *Australia and the Far East*, I. Clunies Ross (ed.), pp. 87-68.

<sup>5</sup> G. L. Wood in F. W. Eggleston, etc., *Australian Standards of Living*, p. 15. For results of the most recent of the expert investigations to which Dr. Wood refers see S. M. Wadham and G. L. Wood, *Land Utilization in Australia*, 1939.

economic realities, quite apart from official policy and popular prejudices, make any suggestion that additional millions of people could forthwith be poured into Australia to fill up the "vast open spaces" simply fantastic. It may be that in the dependent territories, especially on the island of New Guinea, new settlement areas could be opened up by a vigorous program of exploration and the improvement of communications. But here, too, physical difficulties constitute a barrier to large-scale immigration and settlement no less formidable than those erected by the Australian Government. In short, it is highly questionable whether Australia *could* contribute in any substantial way to the solution of the population problems of the Far East by providing outlets for migration, even if she *would*.

A full examination of the bases, rational and otherwise, of the "White Australia" policy would require much more space than it is possible to give it here, and for the present purpose it must suffice to emphasize again two essential points. The first is that for practical purposes the possibility of concessions by Australia on the matter of immigration policy may be ruled out. The second is that there exists no feeling in Australia which would preclude her Government and her people from subscribing in all sincerity to a formal recognition of the principle of racial equality, provided that such formal recognition on Australia's part implied no obligation to vary the immigration policy which she has adopted since the early years of the Commonwealth.

A further respect in which Australia can and certainly will be prepared to make a contribution toward the elimination of conflict between the countries of the Pacific will be through the establishment of closer and more direct diplomatic relations with her neighbors. Following the reorganization of the Government which resulted from the death of Mr. J. A. Lyons in April and the withdrawal of the Country Party from the old coalition cabinet, the new Minister for External Affairs, Sir Henry Gullett, announced the decision shortly to establish legations in Tokyo and Washington. In a public address a week later the Prime Minister, Mr. R. G. Menzies, explained the general policy behind this move in terms which may well mark the commencement of a new era in Australian foreign policy. "We will never realize our destiny as a nation," he declared, "until we realize that we are one of the Pacific Powers. And, of

course, as a Pacific Power, we are principals; we are not subordinate; we have no secondary interest in the Pacific; we have a primary interest in it. We have enormous things at stake in Europe today . . . but our primary risks must come to us across the water. Our primary responsibilities are around the fringes of the Pacific Ocean and because my colleagues and I realize that that is so, we have decided to press on with all activity with a new Pacific policy, a policy which will not merely consist of making pious statements about our desires and friendships with the Netherlands East Indies, French Indo-China, China, Japan, Canada or the United States; but which will exhibit itself in a positive policy, the setting up of real machinery for the cultivation of friendship with those countries and putting that friendship on a permanent basis. . . . You do not keep the peace by exhibiting prejudice or passion in relation to those who might be your friends. We make no contribution in Australia to the peace of the Pacific by sporadic, hostile action in relation to Japan. . . . You have to pay something for friendship; you have to work for friendship. Friendship internationally is not something which floats down out of a golden cloud; it is something you must work for, something you must deserve, something you must build on a basis of mutual understanding, through extensive personal contact with other countries. And in that sense, I hope that we in Australia, small though we may be in point of numbers, will be able to make a real contribution to the world's peace by making a real contribution to the peace of the Pacific Ocean."<sup>6</sup>

If the Government really intends to press on with this new policy of cultivating the friendship of other Pacific countries it must go far beyond the mere establishment of direct diplomatic contacts. The "prejudices and passions" which have colored Australia's attitude toward her neighbors in the past must be replaced by a real knowledge and appreciation of their history, their cultures and their current problems and policies. No conclusion emerges more clearly from a study of Australia's relations with the countries of the Far East than the fact that there is the closest interaction between developments in those countries and developments in Australia; and if friction is to be avoided in the future that interaction must be recognized and studied by all the parties concerned. A recognition of this fact

<sup>6</sup> Address by the Prime Minister, Town Hall, Sydney, May 15, 1939.

was implied in a statement which the Prime Minister made to the House on May 9, 1939. Along with the establishment of legations in other Pacific countries, said Mr. Menzies, the Government intends "to do everything it can to increase our cultural relationship, our personal contact with them, to improve all of those things which go to make up a real and permanent understanding."<sup>7</sup> To this end the Government could do no better than to revive the program which the Hughes Government launched in the early 'twenties only to leave the job half done—the program of establishing the study of Oriental history and languages in Australian schools and universities. The old program did not go nearly far enough to be effective and its only permanent result was the creation of a small School of Oriental Studies in the University of Sydney. The task should now be taken up from that point and a vigorous effort made to stimulate the study not only of the cultures of Japan and China but of the past development and present problems of all the Pacific countries and more especially of Australia's relations with them.<sup>8</sup>

As a member of the British Commonwealth, Australia in the future may well exercise a considerable influence on the policies of the United Kingdom and the other Dominions in this area in which her interests are peculiarly vital. It is not too much to assume that already consideration for Australian interests, and for British interests in Australia, have been factors of considerable importance in the determination of Britain's Far Eastern policy in its economic, diplomatic and strategic aspects. And if, as present developments seem to indicate, Australia is to be transformed into a strategic asset instead of a strategic liability to the mother country and to the Empire as a whole, the weight her word will carry in the counsels of the British Commonwealth should increase in proportion to the contribution she is able to make toward insuring the security of British interests in the Pacific. It may safely be assumed that Australia's weight here as everywhere else will be thrown behind any effort

<sup>7</sup> *Australian Parliament Debates*, May 9, 1939.

<sup>8</sup> Specific proposals for the promotion of Pacific and more especially Oriental studies in Australia have been developed by an active group in Canberra. For an outline of these proposals see two recent articles by Sir Robert Garran, "A School of Oriental Studies," *Austral-Asiatic Bulletin*, February-March 1939, Vol. 2, No. 6, p. 15, and "Australia and the Pacific," *The Australian National Review*, July 1, 1939, pp. 4-11.

to restore prosperity, order and security in Eastern Asia, for in such a restoration lies her own immediate advantage and much of the hope for her future.

While Australia has something to offer toward the solution of the problems of the Far East, she also has something to ask of any projected settlement. Her needs can be stated very briefly. She would seek the restoration of the Far Eastern markets, of which she had such high hopes a few years ago and which she has very largely lost during the present struggle; and much more important still she would ask that any settlement restore to her that sense of security which Britain's naval supremacy, the Anglo-Japanese Alliance, and more recently the Washington treaties and the League system once assured her. At the moment Australia is faced with a world of shrinking markets, and constant threats of war, and despite the current effort to build up the country's economic and military strength, her future, without a settlement in the Far East assuring her of the export markets and the security she needs, is likely to be dark indeed.



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